Exemptions Under Additional Excise Duties in Lieu of Sales Tax: An Empirical Analysis of Loss of Revenue to the States

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PREFACE

The National Institute of Public Finance and Policy is an autonomous, non-profit organisation whose major functions are to carry out research, do consultancy work and undertake training in the areas of public finance and policy.

The study of Estimation of Loss of Revenue due to Exemptions under Additional Excise Duty in Lieu of Sales Tax (AEDILST) was entrusted to this Institute by the Central Board of Excise and Customs, Ministry of Finance. The work on the study was carried out by Dr Mahesh C Purohit.

The focus of the study is on evolving a conceptual framework for estimating loss of revenue due to exemptions given by the Central Government in respect of commodities which normally come under the levy of AEDILST. As AEDILST is a rental arrangement between the Centre and the States, while recommending policy prescriptions a broader perspective has been kept in view. It is earnestly hoped that the painstaking work undertaken by the project leader will be found useful for sorting out the basic problems between Centre and the States in regard to AEDILST.

The Governing Body of the Institute does not take responsibility for any of the views expressed in the report. That responsibility lies primarily with the author.

A Bagchi
Director

16th August, 1990
New Delhi.

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Mahesh C Purohit

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CHAPTER 1

Introduction

Sales tax is a State subject. Under the Constitution, certain restrictions prevent the States from imposing tax on the sale or purchase of goods taking place outside the State or in the course of import of goods into or export of goods out of the territory of India.

In 1956 the Central Sales Tax Act was enacted by the Sixth Constitutional Amendment which introduced Entry 92A in List I of the Seventh Schedule authorising Parliament to levy tax on sale or purchase of goods (other than newspapers) in the course of inter-State trade. The revenue from this tax was assigned to the States by amending Article 269 of the Constitution.

Section 15 of the Central Sales Tax Act, 1956 has laid down certain restrictions on the powers of State Legislature relating to levy of local sales tax on goods declared as of special importance within their respective States.[1]

Evolution of AEDILST[2]

The AEDILST was first levied by the Central Government in 1957 on (i) textiles, (ii) sugar and (iii) tobacco including manufactured tobacco in lieu of sales tax on these commodities earlier levied by the States.[3] This was done in pursuance of an agreement reached between the Centre and States at the meeting of the National Development Council held in December, 1956. According to the agreement, the States agreed to abolish sales tax on these commodities in favour of AEDILST to be levied by

1. These restrictions are as follows:

   (a) The rate of sales tax cannot (at present) exceed 4 per cent; and

   (b) The tax cannot be levied at more than one stage; if the tax on the local sales has been levied and if such goods are later sold in inter-State trade the local tax is refundable.

2. Additional Excise Duty in Lieu of Sales Tax.

3. The additional duties of excise are leviable under the Additional Duties of Excise (Goods of Special Importance) Act, 1957.

the Central Government. In recompense, the entire net proceeds of these duties were assigned to the States. Thus it was a tax-rental arrangement between the Centre and the States and the States were given the Constitutional right to cancel this agreement and impose sales tax on these commodities. But, this right of the States was restricted by the provisions of Central Sales Tax Act, 1956. Under Section 14 & 15 of this Act, these commodities were declared as goods of special importance and the rate of sales tax on these articles was not to exceed the rate of Central Sales Tax which, at present, is 4 per cent.

According to the decision of National Development Council the proceeds of AEDILST are to be distributed among the States and the determination of the respective share of States in the net proceeds from AEDILST was referred to the Finance Commission. The State governments could levy sales tax on these commodities (except silk fabrics) but, not without forfeiting their share in the additional excise duties. Most of the State governments were not satisfied with the implementation of the scheme. The State governments were of the view that sales tax revenue had shown a much higher rate of growth than that of AEDILST. The Fifth Finance Commission examined the matter. Subsequently a group of Central and State governments' officers also examined this issue. In pursuance of the report of the group a meeting of National Development Council was held in 1970. The Committee of NDC in its meeting agreed to the continuance of the scheme subject to the following conditions:-

i. duties being converted into ad valorem except in the case of manufactured tobacco;

ii. incidence of additional excise duty should be raised to 10.8 per cent of the value of clearance;

iii. ratio between the basic and additional duty should be 2:1; and

iv. a Standing Review Committee to be set up for reviewing the working of the scheme.

Now the rate of additional excise duties, in case of sugar, cotton, woollen and man-made fabrics and on tobacco products excluding beedis and snuff, were on ad valorem basis and in case of cigarettes it was ad valorem-cum-specific.

The ratio between basic and additional excise duty of 2:1 was achieved in 1981-82 as promised by the Finance Minister in the Conferences of Chief Ministers on Sales Tax held in September, 1980 and February, 1981. In the first meeting of the Standing Review Committee held on the 12th February, 1981, under the Chairmanship of Member-Secretary, Planning commission, a Sub-Committee was constituted with the following terms of reference:

(a) problems and modalities of implementation of the decision of the NDC taken in 1970; and

(b) time-horizon during which these decisions could be implemented.

The meeting of the Sub-Committee was held on the 23rd May, 1981 and again on the 18th July, 1981. The Committee recommended that the incidence of additional excise duty of 10.8 per cent of the value of clearance was be achieved in three stages viz., 8.5 per cent by 1984-85, 9.75 per cent by 1987-88 and 10.8 per cent by 1989-90. These recommendations were accepted by the Standing Review Committee in its meeting held on the 28th November, 1981. It was also recommended that the Sub-Committee should meet periodically to review the progress in implementation of the recommendations.

Further progress was shown in the year 1982-83 and the rate structure of higher priced fabrics was changed in such a way that fabrics having ex-factory price of more than Rs.20 per square metre attracted additional duty at 7.5 per cent ad valorem. Thus the additional yield was estimated at Rs.35 crores.

Principles of Distribution

The agreement provided that the distribution of the income derived from AEDILST should be on the basis of the consumption of these commodities in each State. The States were also assured payment of the sums they derived from sales tax on these commodities during 1956-57. The matter of distribution was referred to the Second Finance Commission who expressed the possibility of taking consumption as the basis of distribution. As commoditywise data were not available, the Finance Commission estimated the Statewise consumption of these commodities and used population as a corrective factor to determine the present income, viz., the sales tax revenue which accrued to the States in 1956-57 from these commodities and accordingly fixed the guaranteed amounts to be set apart for each State.

The Third Finance Commission slightly modified these guaranteed amounts on account of the extension of the levy on silk fabrics as well. The Commission considered it equitable to distribute the excess collection partly on the basis of the percentage increase in sales tax revenue of a State since 1957-58 and partly on the basis of population. The Fourth Finance Commission recommended its distribution in proportion of the sales tax revenue of the States to the total sales tax revenue of all States.

The Fifth Finance Commission recommended that equal weightage be given to population and to sales tax collection excluding revenue from inter-State sales tax. The Sixth Finance Commission recommended the distribution of the net proceeds, 70 per cent on the basis of population, 20 per cent in relation to SDP at current prices and 10 per cent according to production.

The Seventh Finance Commission considered the appropriate basis for distribution as the consumption of these commodities in the States. For sugar, the figures of despatch of sugar to each State during the last three years ending 1976-77 were used to estimate the consumption in the respective States and the share was determined accordingly. In case of textiles and tobacco, similar information being not available, the Commission favoured the proposition that higher the income higher the consumption of textiles and tobacco, particularly the varieties which contributed the major proportion of revenue from additional excise duties. The product of population and per capita income was thus taken as reflecting the consumption of these commodities in each State and the shares determined accordingly.

The Eighth Finance Commission agreed with the earlier Finance Commission and recommended that the shares of the States in the additional duties of excise for all the three commodities be distributed by giving equal weightage to SDP and population.

All the Finance Commissions so far agreed on the basic premise that the receipts ought to be distributed amongst the States on the basis of consumption. Where they differed, however, was in the manner of measuring consumption, since there were no precise figures of consumption.

The Ninth Finance Commission was required by the Presidential Order to examine the feasibility of the merger of additional duties of excise in lieu of sale tax with basic duties of excise and evolve a suitable formula for allocating a part of the duties of excise in respect of the goods falling under the AEDILST. As the States vehemently opposed this idea, the Finance Commission was also not in favour of any such merger. Further, it stressed the need to review various exemptions under AEDILST.

Objectives of the Study

The Ninth Finance Commission in its Interim Report observed that the State governments had expressed serious misgivings relating to the numerous exemptions issued by the Central Government in respect of goods which would otherwise have attracted additional excise duties. The Finance Commission, therefore, recommended that the Standing Review Committee for Additional Excise Duties in Lieu of Sales Tax (AEDILST) should meet and discuss this issue.

Accordingly, the Committee considered the views of the States and recommended that a study should be conducted by an independent research organisation and results of the study should be placed before the next meeting of the Standing Review Committee.

Consequently, the Central Board of Excise and Customs entrusted this study to the NIPFP with the following terms of reference:[4]

(a) To assess revenue loss to the States on account of exemptions under AEDILST;

(b) To examine the rationale and desirability of continuance of the exemptions;

(c) To recommend policy prescriptions in regard to the above aspects.

As the study aims at examining all the issues involved in giving exemptions, we have attempted to seek the views of the States as well as of the Centre. The study, therefore, analyses the issues in broader perspective, presents estimates of plausible loss of revenue, and suggests policy prescriptions for the tax policy related to tax-rental arrangements.

4. Ref. Ministry of Finance letter No. 333/22/88-TRU dated May 11, 1989.

Plan of the Study

The chapterisation of the study is as follows: Following the first chapter on introduction is the chapter on the views of the States regarding AEDILST. Chapter three at the outset puts forth the objectives that should be kept in mind while analysing exemptions. Keeping in view these objectives, it examines the desirability of granting each of the exemptions. This is followed by an attempt at estimating loss of revenue due to these exemptions. Chapter four examines the exemptions in a broader perspective and recommends policy imperatives for the continuance of the AEDILST. Finally, chapter five presents executive summary of the study.

CHAPTER 2

States' Views on AEDILST

For the first time, the Fifth Finance Commission was confronted with the general opposition of the States to the levy of additional excise duties by the Union Government. Hence, the Finance Commission observed that it would not be desirable to continue the scheme unless the Union and the States agreed to its continuance with suitable modifications. In the light of these observations, the matter was brought up before the National Development Council which in its meeting held on the 28th December, 1970, resolved in favour of continuance of the arrangement with the following stipulations:

1. The ad valorem system of additional excise duties to be extended to all items except unmanufactured tobacco in respect of which specific rates may continue subject to periodical review;

2. The incidence of additional excise duties to be raised to 10.8 per cent of the value of clearance during the next two or three years;

3. Upward adjustments in basic excise duties in future should maintain a ratio of 2:1 between the yield of basic and special excise duties on the one hand and additional excise duties on the other;

4. A Standing Review Committee, consisting of representatives of the Central and the State governments to be set up to review the working of the new arrangements and make suitable recommendations for improvement and the Committee should meet at least once a year.

The recommendations of the National Development Council were accepted by the Government of India, but these were not fully implemented for a long time.

The Seventh Finance Commission had also commented upon the tardy progress in the implementation of the above decision and consequently at a meeting of the Standing Review Committee held on 28th November, 1981, it was decided that the expected incidence of AEDILST as percentage of value of clearance should be reached in three stages - 8.5 in 1984-85, 9.75 in 1987-88 and 10.8 by 1989-90 which means that the target of 10.8 per cent, which should have been achieved by 1973, was now sought to be achieved by 1989-90, that is, after a lapse of 17 years.

Subsequent adjustments in the rates of basic and additional duties, and as a result of change over to ad valorem duty for some of the articles, the ratio of 2:1 was achieved in 1981-82. In all, it has taken more than a decade to normalise the situation.

Views of State Governments

The State governments have various reservations on the overall issue of the AEDILST. First, the States have a feeling that the amendment of Section 14 of the CST Act (vide the Finance Act 1988) causing substitution of the earlier definitions of cotton fabrics, sugar, woollen fabrics, etc. (which were earlier by reference to the schedule to the Central Excise & Salt Act, 1944 and by reference to the Schedule to the Tariff Act, 1985) has indirectly enlarged the scope of these definitions. The Taxation Enquiry Commission, on whose recommendations the CST was enacted had specifically observed that the list should not be enlarged without consulting the States. Second, the definition of the goods liable to AEDILST, particularly of textiles, has been enlarged far beyond what was originally intended. Consequently, the scope of the levy has been considerably expanded, precluding larger areas from the levy of sales tax. For example, after the rental arrangement was made, the synthetic fabrics, was included as one of the items of textiles. Similarly, rubberised textile was originally not included. Without consulting the States, the Centre brought these items under the purview of AEDILST. It is the view of many of the States that such items should be deleted from the scheme of additional duties of excise and handed over back to them for the levy of sales tax. Third, the Union government levies cess on some of the commodities falling under definition of these goods instead of AEDILST. Consequently, the States are doubly deprived: they neither get any revenue which they would have received if AEDILST were levied; nor can they levy sales tax on these goods without forefeiting their share in the proceeds from AEDILST. Fourth, there are many commodities which are subject to nil rate of duty; but at the same time States are precluded from levying sales tax on these commodities wihout losing their share in the proceeds from AEDILST. This has resulted in large loss of revenue to States. Fifth, the States have argued that the proceeds of AEDILST should be distributed on the basis of consumption.[5] In fact, all

5. Under Section 8 (2A) of the CST Act where any goods are generally exempt from local ST the CST rate will be 'nil'. Non-levy of ST on goods subjected to AEDILST will therefore not only cause loss of local ST to the consuming State but also of CST to the exporting States.

the Finance Commissions have so far agreed on the basic premise that the receipts ought to be distributed amongst the States on the basis of consumption. Where they differed, however, was the manner of measuring consumption. Some of the States feel that, in the absence of data on consumption, States' sales tax yield could be used as an indicator. Finally, most of the States have expressed the view that the levy of additional excise duty is the result of the tax rental agreement between the Centre and the States, and the Centre cannot arrogate to itself the right to refer the matter relating to the merger of AEDILST with the basic duties of excise to the Finance Commission without consulting the States. Once the AEDILST is merged with the basic excise duties,these will be treated as excise duty, the levy of which is the Constitutional prerogative of the Centre. Most of the State governments have vehemently opposed such a move.

CHAPTER 3

Estimating Loss of Revenue Due to Exemptions

As pointed out by the States, a large number of exemptions notified by the Centre under the AEDILST are shown in Annexure 1 to the study. There are four exemptions relating to sugar, eleven to tobacco and forty five relating to textiles. Most of these items under AEDILST are related to specific product- characteristics or to special activities. Many of these exemptions have been prevalent from the inception of the tax but some of them were added after the levy of AEDILST. In analysing these exemptions we have to bear in mind the following objectives of granting exemptions. First, the revenue productivity is an important objective for levying a tax on any particular product or activity. If the tax is not able to generate sufficient revenue, commensurating with the administrative expenditure, it may not be worth levying such a tax. Second, administrative expediency is extremely important as there is no point in levying a tax on a commodity being produced at a place beyond the control of the administrative machinery. Similarly, taxing an activity which is not at all possibly checked would also have substantial evasion. Hence, the administrative expediency is essential in analysing the structure of the tax. Finally, economic effects and incidence of the tax are crucial for analysing the rationale of the tax.

Keeping in view the above objectives, we would examine the desirability of granting each of the exemptions enumerated in Annexure 1. We would then estimate the loss of revenue on account of those exemptions that could be usefully taxed under AEDILST. For this purpose, we would estimate the loss of revenue, as much as possible, by taking an average of three years viz., 1984-85 to 1986-87.

I

Sugar

In this category the exemptions relate to khandsari, palmyrah sugar, samples of sugar and the sugar in relation to the manufacture of which no process is ordinarily carried on with the aid of power. As regards samples of sugar, these are not sold or consumed. Hence, there cannot be any tax even when the base is left with the States. Similarly, the production of sugar in decentralised sector (in the manufacture of which no process is ordinarily carried on with the aid of power) cannot be taxed. The administrative machinery required for this purpose would cost much more than the amount of revenue generated. Also, this would be against the policy of encouraging employment in this sector. Hence, in the following paras we analyse, khandsari and palmyrah sugar.

Exemption to Khandsari

Khandsari is a kind of sugar in the manufacture of which neither a vacuum pan nor a vacuum evaporator is employed. The process of manufacture of khandsari is such that sugarcane is crushed in animal or power driven crushers. The juice is collected in pans or tanks. The juice clarified with the aid of herb (and also with the use of solution of "sujji khar") is boiled in a series of 4-5 pans one after the other called "Bel" to obtain the desired concentration. The hot thick syrup is stocked in earthenwares "charas" or jars, barrels or tanks known as crystallizers. Natural cooling forms crystal or "dana" in the thick syrup which is known as Rab or massecuite which is purged in the centrifugals to obtain khandsari.

The molasses coming out of the centrifugals are collected and either converted into "Badda Gur" or reboiled after treatment with lime water to yield 'Galawat'. On purging this we get second process khandsari. A third process khandsari can be obtained from the molasses of the second process 'Salawat'.

Khandsari is produced with or without the aid of sulphitation plant. In sulphitation process sulphur dioxide gas obtained by burning of sulphur is used to purify the sugarcane juice. This improves the quality of khandsari and also the percentage recovery from sugarcane.As regards production from different sizes of centrifugal, the estimates made available by the National Institute of Sugar, Kanpur, suggest that the production capacity of different sizes of centrifugal ranges between 16 quintals per day from the smallest size centrifugal (9"x18") and 79 quintals per day from the largest size (18" x 30") centrifugal (Table K.1). However, from the field studies of the Collectorates of Central Excise and Customs, it is observed that practically all non-sulphitation plants are small sized centrifugals. Hence, the output is constrained by technological restrictions. The production depends upon the efficiency of centrifugal coupled with that of its operators. It is very much possible to increase the production by varying the RPM of the machine. The production in sulphitation plant is qualitatively better and quantitatively larger. Also, in sulphitation plant alone it is possible to obtain second process khandsari but the per day output ranges between 20 quintals in non-sulphitation plant and 35.40 quintals in sulphitation plants (Table K.2).

Table K.1

Production Capacity of Khandsari through Different Sizes of Centrifugals: The Cycles of Operation of Centrifugals and the Amount of Rab

Size of Centrifugal	Sugar production per week (in quintals)	Time Cycle per charge 1st Rab (Minutes)	2nd Rab (Minutes)	Rab per charge 1st Rab Qtls.	2nd Rab Qtls.	Sugar Production per week 1st Sugar Qtls.	2nd Sugar Qtls.
9" x 18" (22.9x45.7 cms)	113.20 (16.17 per day)	7.5	15	0.20	0.16	98.56	24.64
12" x 24" (30.5x61 cms)	246.40 (35.20 " ")	7.5	15	0.40	0.32	197.12	49.28
18" x 30" (45.7x76.2 cms)	554.40 (79.20 " ")	7.5	15	0.90	0.72	443.52	110.88

Source: National Institute of Sugar, Kanpur.

Table K.2

Normal Production in Khandsari Units Per Day

Size of Centrifugal	First Process	Second Process	Third Process
1	2	3	4
	Non-Sulphitation Plant		
22.9 X 45.7 Cms. (9" x 18")	20 Qtls.	-	-
30.5 x 61.0 Cms (12" x 24")	Upto 35 Qtls.	-	-
	Sulphitation Plant		
22.9 x 45.7 Cms. (9" x 18")	35-40 Qtls.	10 Qtls.	3-4 Qtls.
30.5 x 61.0 Cms. (12" x 24")	55-60 Qtls.	15-20 Qtls.	6-7 Qtls.

Source: Collectorate of Central Excise & Customs.

Power could be used in the manufacture of khandsari, firstly, in crushing of sugarcane and secondly for purging of "Rab" in centrifugals. Excise duty was earlier being levied when khandsari was produced in power driven centrifugals. When manufactured without the aid of sulphitation plant by hand driven centrifugals or any other non-power operated contrivance even if "Rab" utilised is manufactured with the aid of power was exempted from excise duty.[1] Such units have also been exempted from licensing controls.[2]

Production of Khandsari

Production and consumption of khandsari (including gur) occupies an important place in sugar industry. Nearly 2/3rds of the total output of sugarcane is utilised for its production. The manufacture of gur and khandsari is undertaken in almost all the sugarcane producing States. The khandsari industry is, however, mainly located in Uttar Pradesh, though lately, it has also spread to Punjab, Gujarat, Karnataka and Andhra Pradesh.

The trend in production of khandsari during last few years, as given in Table K.3 indicates wide fluctuations. The output varies between 22 lakh and 50 lakh during 1976-77 and 1983-84. Here it is important to note that the estimates of khandsari production are derived ones. The data on cane production are based on crop-cutting experiments in the States. But the estimates of utilisation of cane for seed, feed and chewing purposes are based on the field studies. Of the total estimated output of cane, after deducting the conventional percentage for these items, and after taking into account the actual amount of cane crushed by the sugar industry, the rest is assumed to be utilised for gur and khandsari. Further, between gur and khandsari, no authentic break-up is available.[3]

Tax Treatment of Khandsari

AEDILST was first levied on khandsari in the budget for 1959-60. The rate of tax was 3.31 per cent. However, on representation by the khandsari industry, on April 20, 1965 a differential rate of tax was levied. Whereas khandsari produced with the aid

1. Notification No. 152/68-CE dated 27.7.1968.

2. Notification No. 31/76-CE dated February 28, 1976.

3. Ministry of Agriculture, Report of the Sugar Industry Enquiry Commission, 1974, Government of India, New Delhi, 1975, Vol.II, Pp. 991-992.

of sulphitation plant was taxed at the average rate of Rs.1.24 per quintal, the khandsari produced without the aid of such a plant was taxed at the rate of Re.0.96 per quintal. From March 1, 1969 the basis of levy was changed from specific to ad valorem rates. The tax for the AEDILST was fixed at 4 per cent but the effective rate was 2.5 per cent ad valorem for both the procedures (viz., khandsari produced with the aid of sulphitation plant and without the aid of sulphitation plant). The rate was increased to 7 per cent with effect from March 1, 1970 but the effective rate continued to be 2.5 per cent as before. Also, there was a system of compounded levy on khandsari units. The compounded duty, as shown in Table K.4, has been considerably lower than the statutory rates. The compounded levy scheme for khandsari was withdrawn w.e.f. 1.3.1975. The standard rate of duty under normal procedure was applicable w.e.f. 1.3.1975. However, w.e.f. 30.4.1975, the scheme of compounded levy was reintroduced with higher rates of levy with some modifications. Special procedure system of compounded levy for khandsari was first introduced w.e.f. 18.2.1960.[4] Initially, the compounded levy was introduced for khandsari produced without the aid of sulphitation plant. Later on the scheme was extended to unit producing khandsari with the aid of sulphitation plant as well.

With effect from March 1, 1984 the duty on khandsari was classified under heading No. 1701-20 with a nil rate of duty. The Finance Minister in his Budget Speech said, "I propose to fully exempt khandsari sugar from the levy of excise duty. I am taking this measure in view of the labour-intensive character of this industry, and to provide further opportunity for growth of employment in this industry. The abolition of excise duty will also help this industry to pay better price to cane growers, and will give relief to a large number of khandsari units located in far-flung rural areas. The revenue sacrifice involved in this proposal is Rs.16.42 crores."[5] Here it is important to note that the industry is mainly in decentralised sector, the units are mostly self proprietary concerns scattered in rural, semi-urban,and out-of-the way places.

4. Vide Notification No. 10-/60-CE and 11/60-CE dated 18.2.1960).

5. Finance Minister's Speech, 1984-85, p. 31.

Table K.3

Trends in Output and Yield from AEDILST on Khandsari

Year	Output of Gur & Khandsari (Qtl.'000)	Output of Khandsari (Qtl.'000)	Yield From AEDILST (Rs.'000)	Effective Rate of Tax $ (Rs.)
(1)	(2)	(3)	(4)	(5)
1976-77	88410	5045	19634	3.87
1977-78	90880	4530	17693	3.89
1978-79	75960	2314	4009	1.71
1979-80	75480	2238 #	4122	1.84
1980-81	80400	2162	19391	9.19
1981-82	85520	4320	24448	5.66
1982-83	86650	4186	22958	5.49
1983-84	95410	2271	15440	6.83
1984-85	91050	3751 @	-	-
1985-86	83440	3439 @	-	-
1986-87	79310	3268 @	-	-

Note: @ Estimated on the basis of average of proportions of Khandsari to "Gur and Khandsari" for the period of 1976-77 to 1983-84.

$ Effective rate is worked out by dividing col. 4 by col. 3.

Figure is taken as an average of 1978-79 and 1980-81.

Sources: (1) For col. 2, Indian Sugar Year Book 1987-88, Vol-I;
(2) For cols 3. and 4 from years 1976-77 to 1983-84, Tax Research Unit, Central Excise and Customs Department.

Table K.4

Weekly Compunded Levy Rates for Non-Sulphur and Sulphur Plants

Sizes of Centrifugals			Weekly Rates of Duty Per Centrifugal (in Rupees)	
			Units working with the aid of sulphitation plant	Units working without the aid of sulphitation plant
(1)			(2)	(3)
1.	Height of the centrifugal not exceeding 22.9 centimeter and diameter not exceeding 45.7 centimeter.	Basic	Rs. 5660.00	Rs. 3030.00
		Addl.	Rs. 950.00	Rs. 510.00
		Spl.	Rs. 283.00	Rs. 151.50
		Total	Rs. 6893.00	Rs. 3691.00
2.	Height exceeding 22.9 centimeters but not exceeding 30.5 centimetres and diameter of and above 45.7 centimetres but not exceeding 61.0 centimetres.	Basic	Rs. 7950.00	Rs. 4010.00
		Addl.	Rs. 1260.00	Rs. 680.00
		Spl.	Rs. 379.50	Rs. 200.50
		Total	Rs. 9229.50	Rs. 4890.50
3.	Height exceeding 30.5 centimetres but not exceeding 45.7 centimetres and diameter of and above 61.0 centimetres but not exceeding 76.2 centimetres.	Basic	Rs.11060.00	Rs. 5970.00
		Addl.	Rs. 1850.00	Rs. 950.00
		Spl.	Rs. 553.00	Rs. 298.50
		Total	Rs.13463.00	Rs. 7218.50
4.	All other centrifugals not otherwise specified.	Basic	Rs.14660.00	Rs. 7820.00
		Addl.	Rs. 2450.00	Rs. 1310.00
		Spl.	Rs. 733.00	Rs. 390.00
		Total	Rs.17843.00	Rs. 9520.00

Rationale of Tax on Khandsari

Although the khandsari industry is partly in decentralised sector (located in semi-urban and rural areas), the fact remains that the units employing sulphitation plant and the units working with the aid of power are surely not very small. As indicated in Table K.1, even the smallest centrifugal of 9"x18" could produce approximately 2264 qtls. a year, even after taking into account of problems of exigencies.[6] Approximately twice this amount could be produced from sulphitation plant (Table K.2). Further, the scheme of compouding which takes care of the size of the capital employed has been in vogue for years.

Estimating Loss of Revenue from Khandsari

For estimating loss of revenue to the States, we have adopted the following methodology: Using the data of the combined output of gur and khandsari estimates by Indian Sugar Mills Association[7] and the data on khandsari only given by the Tax Research Unit (TRU) of the Department of Customs and Central Excise, Ministry of Finance[8]. From this, we derived the proportion of two for the years 1976-77 to 1983-84. Applying these proportions[9], we derived estimated output of khandsari for the years 1984-85 to 1986-87. Taking the average of these years, we estimated average taxable output during 1984-87 as 3486 thousand quintals.

6. Weekly production is used to estimate annual output with the assumption that production carries on during four weeks in a month and during 5 months in a year.

7. Jain, S.L. (ed.), Indian Sugar Year Book, 1987-88, Vol. II, Indian Sugar Mills Association, New Delhi - 110019, Pp. 153-154.

8. Statistical Year Book, Central Excise (various issues) by Central Exchange for Assessment Data, Directorate of Statistics and Intelligence, Central Excise and Customs, New Delhi.

9. As mentioned in the Report of the Sugar Industry Enquiry Commission, the ratio of utilisation of cane for the manufacture of gur and khandsari has remained more or less static during last decades. Also, it may be noted that except for the figures of the quantity of cane crushed, by the sugar industry which are based on actuals, the other are derived ones. Further, between gur and khandsari, no authentic data are available. [See Ministry of Agriculture (1974), Report of the Sugar Industry Enquiry Commission, 1974, Government of India, New Delhi, Pp. 989-992.

Having estimated taxable output, we turn to estimating effective rate of tax (defined as tax yield divided by clearances) from the data given in the Statistical Abstract of the TRU. Average of the estimated effective tax rate (5.99) for the period 1981-82 to 1983-84[10] has been applied to the estimated output to obtain plausible tax yield from khandsari in the years 1983-84 to 1985-86.

Years	Gross Output (Clear-ance) (qtl'000)	Average Output (Clear-ance) (qtl'000)	Aveage Tax Rate (%)	Estimated[11] AEDILST (Rs.000's)
1	2	3	4	5
1984-85	3751			
1985-86	3439	3486	5.99	20881.14
1986-87	3268			

It is estimated that taking average of the three years the States are losing revenue to the extent of Rs.209 lakhs as shown above.

10. As the rate of tax has not changed during the period under review, for the sake of consistency in clearances, we have used this period to estimate effective tax rate as follows:

Year	AEDILST (Rs.'000s)	Clearances (Qtls '000s)	Effective Tax Rate (%)
1981-82	24448	4318	5.66
1982-83	22958	4184	6.49
1983-84	15440	2260	6.83
Average			5.99

11. The industry is located in decentralised sector; the units are in rural and out-of-the way places. Also, with a view to encouraging employment in village industries, it is not desirbale to take into account the output of khandsari from very small village industries. We have, therefore, obtained information from Khadi and Village Industries Commission for the output of Khandsari in this sector. If we subtract this estimated output (of 0.65 lakh quintals) (average of 1986-87 and 1987-88) from the gross estimated output, the taxable output should be 3421 thousand quintals. Hence, the loss of revenue would be Rs.209 lakh only.

Palmyrah Sugar

This is an output of palm, botanically known as Palmae which is termed as the 'princess of vegetable kingdom' and generally called as 'kalpa vriksha'. There are four varieties of sugar yielding palm viz., date, palmyrah, coconut and sago. They grow on wastelands requiring hardly any manuring or irrigation.

The total number of trees tapped for producing this sugar, as shown in Table P.1, are insignificant. Of the total estimated palmyrah wealth of about 5 crores of trees, only 17 per cent of these are tapped annually and most of these are tapped through cooperative societies (Table P.2) which are normally exempt from tax. Even otherwise the total output of palmyrah sugar is inconsequential for the revenue of AEDILST. As shown in Table P.3 the major output from the tapped trees is gur; only a very small fraction of it is used for producing palmyrah sugar.

The value of output of palmyrah sugar in one of the major palmyrah sugar producing States, viz., Tamilnadu, as shown in Table P.4, is only between Rupees 2 to 7 lakhs during 1983-84 to 1988-89; the major output is in the form of palm gur. This being mainly in the village industries sector, there are administrative difficulties in taxing the product. The estimation of loss of revenue is, therefore, inconsequential.

Table P.1

Existlng and Tappable Palmyrah Wealth in Indian States 1980 - 1981

(No. of trees in lakhs)

Sl. No.	States	Existing		Tappable		Tapped	
		Palmy-rah	Total	Palmy-rah	Total	Palmy-rah	Total
1	2	3	4	5	6	7	8
1.	Andhra Pradesh	95.75	208.80	73.75	150.00	17.10	17.21
2.	Bihar	1.02	1.52	91.80	136.80	0.07	0.16
3.	Gujarat	2.00	17.50	1.00	11.25	0.14	0.43
4.	Kerala	25.07	26.07	15.35	16.10	15.15	15.15
5.	Orissa	20.05	28.97	15.50	22.31	0.01	1.23
6..	Tamil Nadu	337.00	384.80	250.00	281.15	50.00	62.30
7.	West Bengal	19.25	35.57	12.00	24.00	5.00	15.00
	Total	500.15	711.12	459.41	647.39	87.47	111.95

Source: Khadi and Village Industries Commission, Statistical Supplement to Annual Report, 1980-81, KVIC, Bombay, 1982, P.125.

Table P.2

Output of Palm Products through Different Institutions

(Number)

Sl. No.	States	Upto 1980 - 81					
		Assisted			Working/Reporting		
		Regd. Institu-tions	Cooper-atives	Total	Regd. Institu-tions	Coope-ratives	Total
1	2	3	4	5	6	7	8
1.	Andhra Pradesh	23	265	288	3	90	93
2.	Bihar	3	70	73	-	4	4
3.	Gujarat	20	65	85	18	57	75
4.	Karnataka	2	34	36	2	4	6
5.	Kerala	5	125	130	5	28	33
6.	Madhya Pradesh	2	2	4	2	2	4
7.	Maharashtra	4	25	29	-	15	15
8.	Orissa	1	27	28	1	26	27
9.	Rajasthan	2	-	2	2	3	5
10.	Tamil Nadu	-	1610	1610	-	948	948
11.	Uttar Pradesh	-	21	21	-	15	15
12.	West Bengal	46	165	211	1	89	90
	Total	108	2,409	2,517	34	1,281	1,315

Source: Khadi and Village Industries Commission, Statistical Supplement to Annual Report, 1980-81, KVIC, Bombay, 1982, P.128.

Table P.3

Output of Palm Products Classified by States

(Value Rs. in lakhs)

Sl. No.	States	1980 - 1981 Palmgur	Edible	Non-edible Palm Products	Total Palm Products
1	2	3	4	5	6
1.	Andhra Pradesh	65.43	0.36	218.37	284.16
2.	Bihar	2.07	0.71	0.65	3.43
3.	Gujarat	0.07	22.48	1.00	23.55
4.	Karnataka	2.69	-	0.04	2.73
5.	Kerala	58.84	1.39	4.62	64.85
6.	Madhya Pradesh	0.10	0.55	0.01	0.66
7.	Maharashtra	-	24.55	-	24.55
8.	Orissa	52.81	0.07	0.52	53.40
9.	Rajasthan	0.26	4.53	0.14	4.93
10.	Tamil Nadu	1,257.77	5.63	216.73	1,550.13
11.	Tripura	1.92	-	-	1.92
12.	Uttar Pradesh	1.87	0.53	12.20	14.60
13.	West Bengal	201.33	8.32		209.65
	TOTAL I	1,645.16	139.12	454.28	2,238.56
II.	DEPARTMENTAL	-	0.75	0.08	0.83
	Total I + II	1,645.16	139.87	454.36	2,239.39

Source: Khadi and Village Industries Commission, Statistical Supplement to Annual Report, 1980-81, KVIC, Bombay, 1982, P.132.

Table P.4

Trends in Output and Sales of Palmyrah Suguar and Gur in Tamilnadu

	Production		Sales	
	Tonnes	Rs.in lakhs	Tonnes	Rs.in lakhs
Palm Sugar				
1983-84	17.40	2.22		
1984-85	22.80	3.42	21.26	3.19
1985-86	27.38	3.82	18.31	2.38
1986-87	36.9	6.47	24.6	3.69
1987-88	43.5	6.53	28.3	4.67
1988-89	46.7	7.01	43.4	7.17
Palm Gur	Quintals		Quintals	
1988-89	15.75	5297.5	15.75	6615.92

Source: Khadi and Village Industries Commission, Tamilnadu, Madras.

II

Tobacco

Tobacco is consumed either by smoking or chewing or inhalation. It is a product of the plant Nicotiane having various species. Two of these viz., Tobacum and Rustica are commercially important.

Tobacco could be taxed at the stage of cultivation or at the time of its use for manufacture of another product. Initially, due to low level of industrialisation, the tax was levied at the time of wholesale trade only. However, to build progressivity into the structure, the rate of tax was varying depending upon the use of tobacco in the manufacturing process. However, on the recommendations of the Raghuramaiah Committee, changes were made in the structure and some progression was introduced in the system.[12]

With the imposition of AEDILST in 1957, and subsequent changes during the year, the gap between the lower rate and higher rate of tobacco further increased to Rs.1.54 per kg. with effect from December 31, 1957. This led to misuse of lower rate tobacco considerably. In 1959 the government, through the issue of a notification assumed powers to exclude such varieties used in the manufacture of beedis. Further amendments in 1968 made it possible to charge duty at the higher rate.

In the Budget of 1979, the Finance Minister proposed to completely exempt unmanufactured tobacco from excise duties, including additional excise duties and thus, relieve at one stroke, nearly a million tobacco growers, curers, small dealers and warehouse licencees from excise control. This measure involved loss of AEDILST revenue of the order of 19 crores. The Finance Minister, however, proposed to recoup this loss through suitable upward adjustments in the rates of duties on manufactured tobacco products.[13]

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12. Government of India, Report of the Tobacco Excise Tariff Committee, Department of Revenue and Intelligence, Ministry of Finace, New Delhi, 1974.

13. These changes are shown in Annexure 2 to this study. The revenue implication have been clarified by the Union Government as follows:

"The revenue loss of Rs.121.20 crores is in respect of the Centre and the States as it originated from basic, special, as well as additional duty. The Memorandum Explaining the Provisions in the Finance Bill, 1980 clearly indicates that the revenue

In respect of branded beedis the then prevalent tobacco stage duty plus beedi duty was about Rs. 3 per thousand. It was proposed to fix a consolidated rate of Rs.3.60 per thousand branded beedis. Unbranded beedis produced by manufacturers of both branded and unbranded were to pay the same duty.

Unbranded beedis were exempt from beedi duty, but they were subject to tobacco stage duty of about ninety paise per thousand. It was proposed to levy a nominal consolidated duty of Rs.1.60 per thousand on other unbranded beedis. However, to provide relief to the really small manufacturers of unbranded beedis, they were exempted from payment of duty on their clearances of the first 60 lakhs beedis in a year. Also suitable upward duty adjustments were made in respect of chewing tobacco, snuff and smoking mixtures. A duty of 20 per cent ad valorem on branded manufactured hookah tobacco was levied and unbranded hookah tobacco was exempted. A suitable relief was provided in product stage duty in the case of those products manufactured out of duty paid on unmanufactured tobacco except in respect of smoking mixtures and manufactured hookah tobacco.

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loss on account of removal of duty on unmanufactured tobacco was Rs.95.50 crores in the form of Basic Duty, Rs.4.78 crores in the form of Special Excise Duty and Rs.20.92 crores in the form of Additional Excise Duty."

"The Budget Speech of 1979-80 (Page 23, para 110 Part B) clearly states that Rs.115.71 crores are recouped by upward adjustment in the rates of duty on manufactured tobacco products. This reduces the loss to Rs.5.49 crores, for the Centre and the States. The revenue loss to the States will be 24-25% of Rs.5.49 crores since in 1979-80, the duty realisation from cigarettes used to be apportioned in the ratio of 76:24 between basic and additional duty and the ratio was 75:25 in case of other tobacco products. This restricts the revenue loss of the States to around Rs.1.35 crores. Moreover, this revenue loss was more than compensated by several Budgetary proposals on tobacco products, which resulted in net revenue gain of Rs.54.51 crores, of which the gain for the States came to Rs.18.72 crores. Thus, on balance, the States' gain was around Rs.17.37 crores. Therefore, the question of revenue loss to the States does not arise."

(Reference: Department of Revenue, Ministry of Finance, D.O. letter No.333/22/88-TRU dated April 18, 1990).

Estimating Loss of Revenue from Exemption to Unmanufactured Tobacco

As stated earlier, the Union Government in its Budget of 1978-79 exempted unmanufactured tobacco from excise duties including AEDILST. The Union Government was of the view that the exemption of AEDILST on unmanufactured tobacco was compensated for by increasing the tax base on manufactured tobacco and the rates of tax on it.

As regards cigarettes, the rate structure was adjusted in such a way as not only to recoup the loss of revenue suffered as a consequence of withdrawal of tobacco stage duty but also to further secure an additional sum of Rs.60 crores in a year from this item. The pre-budget and post-budget rates of duty on cigarettes are given in Table T.1. In addition to the changes in cigarette, the government increased taxes on a few other manufactured goods, as shown in Annexure 2 to the study.

However, to examine the claim of the Union Government, we have attempted to estimate the yield from the 1978-79 tax base of tobacco (i.e., taxable unmanufactured tobacco and manufactured products viz., cigarette and beedi being taxed in 1978-79, the year when the unmanufactured tobacco was exempted). The yield (Y_i) from unmanufactured tobacco, as shown in Table T.2, increased from Rs.14.69 crores in 1972-73 to Rs.18.98 crores in 1978-79. Similarly, clearances (C_i) of unmanufactured tobacco during the same period increased from 23.65 crore kg. to 28.54 crore kgs. With the help of this information, we have estimated effective rate of tax (R_i).[14] This tax rate is applied to the yield of the unmanufactured tobacco in the later years. As the yield and clearances bear a proportionate relationship, we have used the ratio of yeild to clearances (as available during 1972-73 to 1978-79) to obtain actual tax base (clearances).[15] Thus, the estimated yield is obtained by applying effective tax

14. The estimation has been done as follows:

$$R_i = \frac{Y_i}{C_i}$$

Where Y_i = yield in the ith year, and C_i = clearances in the ith year.

15. As the tax is levied on clearances and not on output, we have estimated clearances from the actual output available from Agricultural Situation in India (various issues). For this purpose we have used the ratio between the output and the clearance (i.e., O/C) available for the period 1972-73 to 1978-79. (See, Statistical Year Book, various issues, Excise Department). The ratio of O/C, has been applied to the actual output to obtain clearances for the period 1983-84 to 1985-86.

rate on estimated clearances during the years 1983-84 to 1985-86. This gives us plausible tax yield from the unmanufactured tobacco, if the tax rate as existed in the year 1978-79 had prevailed.

As against this, we have to set-off the loss of revenue due to additional yield from the increase in manufactured tobacco products (viz., bidies and cigarettes). We have attempted to estimate tax yield from these items at rates prevailing in 1978-79. Estimated total yield from both the unmanufactured tobacco and the manufactured tobacco is shown in Table T.3. To obtain the possible loss of revenue, we compare the estimated yield so obtained with the actual yield of manufactured tobacco during 1983-84 to 1985-86. On comparing the yield from the two series, we conclude that there is no loss of revenue in 1985-86 but the loss of Rs.16 and 3 crores is estimated in 1983-84 and 1984-85, respectively.

Table T.1

Compensatory Changes in Tax Rates on Cigarettes for Recouping Loss of Revenue on Unmanufactured Tobacco

Pre-budget

Cigarettes of which the value per one thousand -		Basic	Additional
i)	does not exceed Rs.15/-	115%	35%
ii)	exceeds Rs.15/- but does not exceed Rs.20/- part thereof in excess of Rs.15/- per one thousand.	115% plus 3% for every additional rupee or thereof in excess of Rs.15/- per one thousand.	35% plus 1% for every additional rupee or part
iii)	exceeds Rs.20/- additional rupee or part thereof in excess of Rs.20/- per one thousand.	130% plus 5% for every additional rupee or part thereof in excess of Rs.20/- per thousand.	40% plus 3% for every

Post-budget

Cigarettes of which the value per thousand -		Basic plus Additional
i)	does not exceed Rs.10/-	150% plus Rs.21 per one thousand.
ii)	exceeds Rs.10/- but does not exceed Rs.35/-	150% plus 10% for every additional rupee or part thereof in excess of a value of Rs.10/- per one thousand plus Rs.21/- per one thousand.
iii)	exceeds Rs.35/-	400% plus Rs.21/- per one thousand.

Note: The amount of duty so levied is to be apportioned in the ratio of 76:24 between basic duty and the AEDILST.

Table T.2

Trends in Clearance of Tobacco and Yield of AEDILST

Years	Unmanufactured Tobacco: Clearance Kg.000	Unmanufactured Tobacco: Addl. Duty Rs.000	Manufactured Tobacco: Branded Beedis: Clearance Nos.Mn	Manufactured Tobacco: Branded Beedis: Addl. Duty Rs.'000	Manufactured Tobacco: Cigarettes: Addl. Duty Rs.'000	Total Yield of AEDILST from Tobacco Rs.'000
	1	2	3	4	5	6
1972-73	236522	146893			477802	477855
1973-74	234306	149975			737359	739462
1974-75	227891	140935	16002	2968	846716	853558
1975-76	257822	159841	296732	59419	911490	1022312
1976-77	294866	184254	315412	63292	1013944	1079258
1977-78	296761	184706	315625	113310	1148663	1264359
1978-79	285414	189768	328735	130716	1150138	1283168

Source: Statistical Year Book, Excise and Customs Department, New Delhi, various volumes.

Table T.3

Estimated Yield from 1978-79 Tax Rates and Actual Yield from Tobacco Inlcuding Manufactured Tobacco

Year	Estimated Yield with Tax Rate in 1978-79 from						Actual Yield of Manufactured	Estimated Loss of Revenue due to Exemptions
	Unmanufactured Tobacco	Manufactured Tobacco				Total from Tobacco (1+5)		
		Cigarettes	Beedis	Others	Total			
	1	2	3	4	5	6	7	8
1983-84	208.032	1374.91	180.24	1377.97	2933.12	3141.15	2975.60	- 165.55
1984-85	199.711	332.83	144.42	3266.89	3744.14	3943.85	3908.30	- 35.55
1985-86	168.242	1400.51	145.07	1746.04	3291.62	3459.86	4552.50	+ 1092.64

Table T.4

Trends in Consumption of Cigar and Cheroot Tobacco

Year	Quantity (m.kgs.)
1950-51	21.2
1960-61	20.2
1970-71	15.0
1978-79	12.8
1980-81	10.7
1981-82	9.7
1982-83	8.9

Source: Panikar, S.N., et.al., "Cigar and Cheroot Tobacco Industry in India", India Tobacco Journal, April-June 1983, Pp. 4-9.

Exemption to Cut Tobacco

Cut tobacco is a variant of unmanufactured tobacco which is still in the process of being used for the manufacture of tobacco products. Hence, this item was not supposed to be a base of the tax when the unmanufactured tobacco was exempted. However, some of the officers of the excise department viewed this as an independent item under the list of manufactured tobacco products and attempted to levy tax on the same. Hence to avoid duplication of taxing the same base this was separately listed as an item of 'nil' tariff. As this is a part of the unmanufactured tobacco, as defined in this study, no separate estimation of loss of revenue is attempted for this commodity; the loss on this commodity is assumed to be included in the 'estimation of loss for unmanufactured tobacco' presented earlier.

Other Exempted Items of Manufactured Tobacco

There are many items under this category including (i) cigars and cheroots, (ii) cigarillos of tobacco, (iii) hookah tobacco, (iv) unbranded beedis, (v) unbranded gudaku, (vi) chewing tobacco, and (vii) preparation containing snuff of tobacco. In addition, samples of tobacco are also exempt. We would analyse these in seriatum:

(i) Cigars and Cheroots: The cheroot is a roll of tobacco held in a bunch wrapper called binder. The cigar differs from cheroot only in shape, being truncated at both sides and the cigar-wrapper, wrapped over it. The manufacturing of both these items is traditionally a hand-made process carried on without any elabroate machinery. A typical cigar is described as 85 per cent filler, 10.5 per cent binder and 4.5 per cent wrapper.

Production of cigars and cheroots is on the decline. The data on value of clearances and yield of AEDILST, as given in Table T.5, indicates the trend. Apart from the declining trend in AEDILST, the rationale of exemption lies in the economic conditions of the cigar and cheroot industry. Whereas the world production of cigar in 1981 was 185 million kgs., India's share was about 15 million kgs. The production has declined from 1162 million in 1972 to 477 million in 1982.

India was an important producer and exporter of cigars during the early decades of the present century. 'Trichy' cigars were well known in the East. Woriur near Tiruchirapalli and Dindigul were well known cigar manufacturing centres. The industry seems to have declined substantially. Presently, cigar factories are concentrated in Madurai and Trichy Districts of Taminadu and in Dinhata area of West Bengal. Kakinada in East Godavari district of Andhra Pradesh also accounts for factories which manufactures both cigar and cheroot. There are about 10 cheroot factories in Tamilnadu while Andhra Pradesh is reported to have around 200 cheroot units.

Thanks to the heavy incidence of excise duty and to the increasing popularity of cigarettes; consumption of cigar and cheroot tobacco has been showing a steady decline over the last three decades as shown in Table T.4.

As the cigar and cheroot industry is one of the oldest tobacco industries in the country employing artisans and manual workers, the industry should not be allowed to extinct. Hence, exemption of AEDILST is based on the rationale of keeping the industry alive. However, the total loss of revenue on this account, as seen from the trend in output, is estimated (taking average for the years 1983-84 to 1985-86) to be Rs.45 thousand only.

(ii) Hookah Tobacco: Hookah tobacco with no brand name has been classified as 'nil' rate and that with brand name is notified as exempted w.e.f. March 1, 1986. This exemption is based on the fact that unmanufactured tobacco cleared on payment of duty for manufacture of Hookah Tobacco has declined considerably (Table T.6).

The main ingredients used in the manufacture of hookah tobacco are (a) crushed and powdered tobacco leaf, (b) stalks, (c) molasses and (d) an alkaline substance called "Reh". Owing to changes in socio-economic conditions, including industrialisation and migration, consumption of cigarettes and beedis is becoming more and more popular, at the cost of hookah tobacco. Hence the consumption of this product steadily declined in seventies. Even in recent years, the trend in clearance and yield from AEDILST, indicates the declining trend. However, the total loss of revenue, on account of hookah tobacco, taking average of three years (for which data are available) is estimated to be Rs.3.39 lakhs per year.

(iii) Unbranded Beedis: Beedi industry in India is said to be about 100 years old. Beedis are made by rolling specially prepared tobacco flakes in a piece of wrapper leaf giving a conical shape completely folded in at the end, partly closed at the flat-end and tied with pieces of cotton thread or a paper band. It is typically Indian in origin but used in other countries too.

Table T.5

Trends in Yield From Exempted Tobacco Products

Years	Unbranded Beedis		Cigar & Cheroots		Hookah Tobacco		Unbranded Chewing Tobacco		Total Additional Duty on Exempted Items
	Clearance No.000	Additional Duty Rs.000	Clearance No.000	Additional Duty Rs.000	Clearance Kg.000	Additional Duty Rs.000	Clearance Kg.000	Additional Duty Rs.000	Rs.000
1	2	3	4	5	6	7	8	9	10
1974-75	16002	2968					1190		2968
1975-76	296732	59419					26199		59419
1976-77	315912	63292					27982		63292
1977-78	315625	113310					27974		113310
1978-79	328735	130716	209438		88	27	29752		130743
1979-80	-	272803				700		222000	495503
1980-81	326709	267159	4520*	48	2596	627	36387	35481	303315
1981-82	334186	287411	2584*	24	2315	516	34518	37412	325423
1982-83	323099	291789	2422*	23	1780[f]	361	36300	51148	343321
1983-84	451647	311825	7118*	66	1647	133	37234	67797	379821
1984-85			40200*	46			293		46
1985-86			2541*	22	1634	524	4304	321252	321798

Notes: * Excludes exempted category.
Exempted quantity included.

Table T.6

Unmanufactured Tobacco Cleared on Payment of Duty for Manufacture of Hookah Tobacco

Year	Quantity (mn. kgs) Classified as Hookah	Quantity (mn. kgs) Adjusted for Stalks and Others	Per Capita Consumption (gms.)
1	2	3	4
1951-52	53.3	63.5	146.0 (174.0)
1952-53	56.1	67.3	
1953-54	53.1	64.7	
1954-55	52.7	62.2	
1955-56	54.8	64.4	
1956-57	52.6	64.2	
1957-58	44.7	56.1	
1958-59	42.9	70.9	
1959-60	43.5	71.0	
1960-61	43.1	71.6	
1961-62	42.9	67.5	96.0 (151.7)
1962-63	41.3	73.2	73.2
1963-64	29.7	53.1	
1964-65	32.7	58.9	
1965-66	31.5	56.9	
1966-67	29.1	50.4	
1967-68	32.4	59.1	
1968-69	26.9	47.1	
1969-70	27.7	47.8	
1970-71	26.2	45.1	
1971-72	28.9	52.6	
1972-73	22.3	47.1	
1973-74	20.6	46.7	35.7 (80.9)

Note: Figures in brackets indicate per capita consumption on adjusted figures.

Source: Directorate of S & I C E & Cus., New Delhi.

Table T.7

Yield of AEDILST on Manufactured Tobacco

(Rs. lakh)

ITEMS	1983-84 Value of clear-ances	1983-84 Addl. Duty	1984-85 Value of clear-ances	1984-85 Addl. duty	1985-86 Value of clear-ances	1985-86 Addl. duty
1	2	3	4	5	6	7
Cigars & Cheroots	3	1	Neg.	Neg.	-	-
Cigarettes	25802	25802	29208	35050	27351	41026
Beedis	70886	3119	70155	3157	85100	3404
Smoking mixture	64	48	60	45	89	67
Chewing tobacco	11511	678	12307	720	15390	908
Snuff	1514	106	1337	107	1587	119
Hookah tobacco	40	2	80	4	20	1
TOTAL	109820	29756	113147	39083	129537	45525

Note: Neg. = Negligible.

Source: Central Board of Excise & Customs.

The excise duty on machine made beedis was imposed in August 1954. The Finance Bill, 1951 contained a provision for manufactured stage duty on hand-made beedis. This evoked wide-spread criticism and on the recommendations of the Select Committee of Parliament, the proposal of such a levy was dropped. In this regard the Tobacco Excise Tariff Committee suggested that,"The manufacture of beedis, presently a purely manual operation, is a cottage industry which has spread to almost every nook and corner of the country. A very large labour force, which has been estimated at about three million, including women and children in urban areas as well as remote villages has got direct employment in this industry. Besides, a very large number of persons are employed indirectly, that is to say, in the cultivation and trade of raw beedi tobacco and collection and storage of and trade in tendu leaves. It thus helps in reducing unemployment and providing additional employment to substantial number of under-employed persons both directly and indirectly. It is generally accepted that in the present stage of development of the country there is a great need to encourage agro-based, labour-intensive industries. Any induced shift from beedi to cigarettes would cause a serious disequilibrium in the matter of both varietal and otherwise production of tobacco besides having serious repercussions on the employment potential created by the beedi industry."[16]

The hand-made branded beedis were however taxed at a low rate of Re. 1=00 per thousand. This was simultaneously followed by reduction in duty on unmanufactured beedi tobacco. Handmade unbranded beedis continued to enjoy full exemption from product stage duty. In 1977, the rate of excise duty on handmade branded beedis was increased from Re. 1=00 to Rs.2 per thousand. The rates per 1000 beedis were as follows:

(i)	Beedis in the manufacture of which any process has been conducted with the aid of machines operated with or without the aid of power	Per 1000	Rs.3.80 Basic Re.0.80 Addl.	Rs.4.60 Basic Re.1.00 Addl.
(ii)	Other beedis (hand-made beedis)	Per 1000	Re.0.80 Basic Re.0.20 Addl.	Rs.1.60 Basic Re.0.40 Addl.

16. Government of India, interim Report of the Tobacco Excise Tariff Committee, Ministry of Finance, New Delhi, para 44, quoted as Annexure I of the Final Report, of the Tobacco Excise Tariff Committee(1974), Vol. I, P.418A.

The unbranded handmade beedis continued to be exempted.

In 1979 when the tax on unmanufactured tobacco was completely withdrawn, upward adjustments were effected on branded beedis (It was Rs.3.60 per thousand). The composite manufacturer was made taxable (at the same rate), and only a small manufacturer of unbranded beedis (on their clearance of 60 lakh unbranded beedis only in a year) were exempt.

Thus, the exemption to unbranded beedis is not a new one. In fact, its coverage has slowly reduced. As of today, only "unbranded beedis made without machine by or on behalf of a manufacture from one or more factories upto a quantity but not exceeding 20 lakh in a financial year" are exempt. That is, all other beedis are taxed and the yield of AEDILST from beedis, as shown in Table T.7, is consistently increasing. The exemption to unbranded beedis is to protect hand-made beedis against machine made beedis. Since it is the hand-made beedis which provide employment to a large number of people, it has been granted to see that the interest of the employment is not affected. Besides, the output is so small that even if we estimate loss of revenue at a nominal rate, the tax yield would be negligible.

(iv) Miscellaneous Items: The other exempted items include unbranded gudaku, cigarillos of tobacco, chewing tobacco, snuff of tobacco and samples of tobacco. Among these items samples of tobacco are not consumed and cannot be taxed. Rest of the items are not of any consequential amount.

III

Textiles

Textiles industry contributes significantly to our national income. Its contribution however is on a decline. Its output in terms of cloth declined from 3376 m. metres in 1985-86 to 3317 m.metres in 1986-87 and further to 3027 in 1987-88. In terms of employment, the number of workers also declined from 12.53 lakhs in 1986 to 12.18 lakh in 1988.[17] However, there has been a rising trend in the yield from AEDILST. As shown in Table C.1, the revenue increased from Rs.29.77 crores to Rs.133.86 crores in 1980-81 and to Rs.460.36 crores in 1986-87. However, the revenue declined in the following year to Rs.439.90 crores. The revenue thus increased at a compound rate of growth of 18.472 per cent per annum during 1971-72 to 1987-88. The break-up of the period shows that the yield recorded a growth of 21.254 per cent during 1971-72 to 1977-78 and a growth rate of 19.509 during 1978-79 to 1987-88.

The trend in clearances of different textiles, as given in Table C.2, shows that the clearances of cotton textiles are on a decline; its proportion in total textiles which was 37 per cent in 1983-84 came down to 29 per cent in 1987-88. But clearances of man-made fabrics increased substantially over the same period.

Exemptions under Textiles

There are numerous tax exemptions under textiles. These could however be grouped into a few specific categories. First, silk fabrics along with embroidary on silk are exempt. Second, khadi and handloom textiles including unprocessed, processed without the aid of power, processed by a registered co-oerative society, and fabrics subjected to special processes[18] are also not taxed. Third, all kinds of value-losses in production (viz., chindis, fents, rags and flag-allowance) are also not included in the

17. "Questions and Answers in Parliament", quoted in Journal of Indian Cotton Mills Federation, September 1988, Pp. 63-64.

18. This includes calendering with plain rollers (other than grooved rollers) or blowing, singeing, padding, back filling, cropping, hydroextraction, screen printing without power, flanellete raising, stentering, damping and back-filling on grey and beached sorts, scouring, cropping or butta-cutting, curing or heat setting, and expanding.

Table C.1

Trends in yield from AEDILST on Textile

(Rs.lakh)

	YEARS	Yield from AEDILST
	1971-72	2977
	1972-73	3654
	1973-74	4147
	1974-75	4642
	1975-76	6331
	1976-77	8231
	1977-78	9090
	1978-79	10266
	1979-80	10898
	1980-81	13386
	1981-82	16207
	1982-83	16644
	1983-84	24686
	1984-85	25284
	1985-86	32899
	1986-87	46036
	1987-88	43990
Growth Rate	1971-72 to 1987-88	18.472
(Per cent	1971-72 to 1977-78	21.254
per annum)	1978-79 to 1987-88	19.509

Table C.2

Trends in Clearances and AEDILST on Various Fabrics

(Figures in crore

ITEMS	Value of Clear-ance	AEDI-LST	Value of Clear-ance	AEDI-LST	Value of Clear-ance	AEDI-LST	Value of Clear-ance	AEDI-LST	Value of Clear-ance	AEDI-LST
	1983-84		1984-85		1985-86		1986-87		1987-88	
Cotton Fabrics	1866.87 (37.31)	30.99 (12.55)	1640.00 (31.48)	26.24 (10.38)	2534.00 (39.07)	50.68 (15.40)	2015.05 (26.41)	41.51 (9.02)	1880.00 (29.45)	47.00 (10.68)
Woollen Fabrics	123.25 (2.46)	4.93 (2.00)	205.92 (3.95)	7.99 (3.16)	73.75 (1.14)	2.95 (0.90)	63.50 (0.83)	2.54 (0.55)	46.94 (0.74)	1.69 (0.38)
Man Made Fabrics	3013.43 (60.23)	210.94 (85.45)	3363.23 (64.57)	218.61 (86.46)	3878.31 (59.79)	275.36 (83.70)	5550.80 (72.76)	416.31 (90.43)	4457.52 (69.81)	391.21 (88.94)
Total	5003.55	246.86	5209.15	252.84	6486.06	328.99	7629.35	460.36	6384.46	439.90

Note: Figures within parenthesis indicate per cent to total.

Source: Tax Reserch Unit, Central Board of Custom and Excise, New Delhi.

base. Fourth, the low quality fabrics or the fabrics used as necessity are exempted. This includes controlled cloth[19], hair belting, shoddy blankets, melton cloth, woollen fabrics of animal or coarse hair or of shoddy yarn, mohair fabrics, and crocheted fabrics. Finally, all varieties of samples are also not taxable.

Exemption of Silk Fabrics

Rationale of exemption to silk industry lies in its being a cottage industry par excellence. It is one of the most labour intensive sectors of Indian economy combining both agriculture and industry. Sericulture can be broadly classified into two distinct sectors - Mulberry and Non-Mulberry. Each sector in turn is divided into three well defined sections, viz., (i) production of raw silk (ii) production of reeling cacoons, and (iii) Utilisation of bye-products, viz., pupae and silk waste.

The total annual raw silk production averages around 9,500 tonnes, of which silk-waste is around 3,300 tonnes per annum. Mulberry raw silk output per annum aggregates to about 8,500 tonnes whereas that of non-mulberry silk and silk-waste is around 3,000 tonnes and 200 tonnes, respectively. The output of silk fabrics is estimated to be as follows:

Estimated Production of Silk Fabrics in India

Year	Production of Silk Fabrics (in lakh sq. mtrs.)
1984-85	1,138.00
1985-86	1,179.00
1986-87	1,325.00
1987-88	1,412.00
1988-89	1,608.00

Source: Central Silk Board, Bangalore.

19. According to the Textile Commissioner, the controlled cloth scheme has been withdrawn and the notification on controlled cloth is rescinded vide notification No. 1(1)/88-CSS/121 dated 13.9.89.

India is the second largest silk producing country in the world, next only to China, providing employment to over five and a half million people. It has the unique distinction of being the only country in the world which cultures all the known commercial varieties of silk - Mulberry, Tropical Tasar, Temperate Tasar (Oak), Eri and Muga. India's raw silk production has improved to 8,455 tonnes in 1987 from 2,376 tonnes in 1975, more than two and a half times increase.

Most of the production being in handloom sector, taxation of the silk fabrics is administratively very difficult. Besides, we have separately estimated loss of revenue for handloom that includes silk fabrics. Hence, there is no need to have a separate estimate.

Exemption for Handlooms

The handloom industry is the oldest industry of the country, and provides employment to a large number of people. Different types of handlooms are used, but the most common is the fly-shuttle pit loom. Although some factories or Karkhanas accommodating a large number of handlooms exist, the vast majority of handlooms are small units mostly located in the household premises of the weavers. Generally, they have relationship with master weavers who provide them with the raw material (yarn), and help them in the marketing of the product. Handlooms continue to grow, and provide a significant share of the increase in cotton cloth consumed by the Indian population.

The data on handlooms available so far consisted of the estimates prepared by the Sub-Group on Handlooms for the Seventh Five Year Plan. Some information was also available from the surveys carried out by different organisations or State governments at different points of time. These data lacked uniformity with regard to period, coverage and concept. However, a recent census undertaken by the NCAER, shows that the total production of all types of handloom fabrics (dhotee, saree, furnishing, etc.) is of the order of 330 crore linear metres.[20] The yearly production of major seven items is estimated to be as follows:

20. We have estimated the yearly output by multipying the reported monthly output by 11 (assuming that work goes on for at least eleven months in a year). NCEAR, Census of Handlooms in India - 1987-88, Office of the Development Commissioner for Handlooms, Ministry of Textiles, Government of India, New Delhi, 1989.

Sarees	82.50	crore metres
Dhoti	47.30	crore metres
Gamcha	35.75	crore metres
Bedsheet	24.97	crore metres
Lungi	17.93	crore metres
Shirting	15.73	crore metres
Towel	14.74	crore metres

The value estimates of output from handloom sector, as reported by the Handloom Commissioner is Rs.2053 crores but the estimates available from the TRU indicate much lower figure.[21] It is only Rs.639 crores (Tables C.3 and C.4). Difference between these two figures being considerable, we may take an average of the two to arrive at a reasonable estimate, which comes to Rs.1346 crores. As there has been no tax on handloom fabrics, it is difficult to assume any tax rate to estimate the loss of revenue. Nevertheless, taking the CST rate of 4 per cent we estimate that the States stand to lose revenue to the extent of Rs.53.84 crores.[22]

Exemption to Chindis, Fents, Rags, Flag Allowance and Samples

Value loss[23] in production is obviously no base for taxation. Among various aspects of value loss, production value loss could be defined as follows:

$$V(P) = \frac{\sum_{i=1}^{n} P_i V_i}{\sum_{i=1}^{n} P_i}$$

21. The data from TRU are reliable when the tax is levied and collected by the Department. When the commodity is exempted or have 'nil' rate, the estimates of output given by the TRU are not reliable. Estimates of output of handloom cloth made available by TRU has the same problem. As seen from Table C.3 and C.4, the value of output of handloom cloth reported by TRU is very much less than the estimates reported by the Handloom Commissioner. We believe that the data from the Commissioner are more reliable.

22. For details of the estimates from TRU, see Annexure III.

23. Value oss is the difference between the sale value which would have been realised if 100 per cent cloth would have been sold as sound and at actual sale value.

Table C.3

Estimates of Output for Items Exempted Under AEDILST (HANDLOOM)

(Rs.Lakhs)

Tariff Heading/ Sub-Heading No.	Description	Output	Sources
(1)	(2)	(3)	(4)
5412.10 .20 .30 .40	Man-Made fabrics containing cotton Polyester fabres or yarn in which polyster is less than 70% processed by a registered cooperative handloom society.		
5411.21, 5510.21	Woven handloom man-made fabrics processed with the aid of power or steam by a factory owned by a State Government, Handloom Development Corpn. or an Apex Co-operative Society.	3358.51	1
5107.24 5107.39	Handloom woollen fabrics processed by an independent processor approved by the Government of India on the recommendation of the Development commissioner for handloom.		
5208.22 5212.00	Handloom Cotton fabrics processed by a factory owned by a Registered Handloom Co-operative Society or any organisation.	.08	1
5106.00	Woven fabrics of wool not subjected to any process.	1.02	1
52	Cotton fabrics subjected to the process of screen printing without the aid of power or steam upto an aggregate quantity not exceeding 75 lakh metres.		
5411.11 5510.11	Handloom man-made fabrics processed without the use of power or steam or use of machines.		
54.08 55.07 5802.13	Unprocessed woven fabrics from filament yarn and staple fibres including terry toweling and similar woven fabrics.		

Table C.3 (cont'd.)

Estimates of Output for Items Exempted Under AEDILST (HANDLOOM)

(Rs.Lakhs)

Tariff Heading/ Sub-Heading No.	Description	Output	Sources
(1)	(2)	(3)	(4)
5410.10 5509.10	Fabrics from filament yarn and staple fibres processed without the use of machines and without power or steam.		
5512.21	Man-made handloom fabrics containing polyester fibre between 40% and 70% by weight processed with the aid of power by a factory owned by a State Govt. Handloom Cooperative society approved in either case in this behalf of Government of India.	60529.73	1
5107.22	Woollen fabrics processed without the aid of power or steam.		
5107.23	Handloom woolen fabrics processed with the aid of power by a factory owned by a registered handloom cooperative society or any organisation set up or approved by Government.		
	Total production of cloth in Handloom sector taken from TRU.	63,925.52	1
	Total production of cloth in Handloom sector.	205318.50	2

Source: 1 = Tax Research Unit, Central Board of Customs and Excise, Ministry of Finance.
2 = Office of the Development Commissioner for Handloom, Ministry of Textiles.

Table C.4

Handloom Sector Data Taken from TRU

Tariff Heading/ Sub-Heading No.	Description	Unit	1984-85	1985-86	1986-87	1987-88	Average
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
5412.10	Man-Made fabrics containing cotton Polyester fabrics or yarn in which polyester is less than 70% processed by a registered cooperative handloom society.						
5411.21, 5510.21 5511.21 5512.21	Woven handloom man-made fabric processed with the aid of power or steam by a factory owned by a State Government.	Mtrs.000 Rs.lakhs			58500 6172	4107	3358.51 545.01(1986-88)
5107.14 5107.39	Handloom woollen fabrics processed by an indep. processor approved by the Government of India on the recommendation of the Develop commissioner for handloom.						
5208.22 5212.00	Handloom Cotton fabrics processed by a factory owned by a Registered Handloom Co-operative Society or any organisation.	Mtrs.000 Rs.Lakhs				44	.08 .08(1987-88)
5106	Woven fabrics of wool not subjected to any process.	Kg.000 Rs. Lakhs	338 1.02	124		2	1.02 .02(1984-85)
52	Cotton fabrics subjected to the process of screen printing without the aid of power or steam.	Mtr.000 Rs.Lakhs				42 74.50	
54.11 5510.11	Handloom man-made fabrics processed without the use of power or steam or use of machines.						
5410.10 5509.10	Fabrics from filament yarn and staple fibres processed without the use of machines and without power or steam.						

Table C.4 (cont'd.)

Handloom Sector Data Taken from TRU

Tariff Heading/ Sub-Heading No.	Description	Unit	1984-85	1985-86	1986-87	1987-88	Average
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
5512.21	Man-made handloom fabrics containing polyaster fibre between 40% and 70% by weight processed with the aid of power by a factory owned by a State Government Handloom Cooperative society approved in either case in this behalf of Government of India.	Mtr.000			223200	177689	60529.73
		Rs.Lakhs			73090		47969.45(1986-88)
5107.22	Woollen fabrics processed without the aid of power or steam.	Mtrs.	15	8	-		
5107.23	Handloom woollen fabrics processed with the aid of power by a factory owned by a registered handloom cooperative society or any organisation set up or approved by Government.	No.000	.41	-	24		

Source: Tax Research Unit, Department of Customs & Excise, Ministry of Finance.

Where, n = number of sorts in a mill;

V_i = per cent value loss of i^{th} sort; and

P_i = total production of i^{th} sort.

The production loss estimated as per above method includes loss due to chindis, i.e, bona-fide cut pieces which are (a) 23 cms. or less in length; (b) more than 23 cms. in length but which are not more than 7.5 cms. in width, and (c) man-made fabrics of all kinds, not more than 30.5 cms in width. Also, it includes fents which are (i) bonafide cut-pieces of fabrics (excluding cut-pieces of towels) of length 45 cms or more but not exceeding 90 cms. where the width of the fabric is one metre or more, and of length 65 cms. or more but not exceeding 135 cms. where the width of fabric is one metre or more, and of length 65 cms. or more but not exceeding 135 cms. or more where the width of the fabric is less than one metre arising during the normal course of manufacturing (including processing or packing or drawing samples); (ii) damaged fabrics (excluding damaged towels) of length 45 cms. or more but not exceeding 90 cms. where the width of the fabric is one metre or more and of length 65 cms. or more but not exceeding 135 cms. where the width of the fabrics is less than one metres; and (iii) cut-pieces of length 45 cms. or more but not exceeding 90 cms where the width of the fabric is one metre or more and of length 65 cms. or more but not exceeding 135 cms. where the width of the fabric is less than one metre, cut from damaged dhoties or sarees. Further, it also included rags which are bonafide cut-pieces of fabrics of length more than 23 cms but less than 45 cms where the width of the fabric is one metre or more and of length more than 23 cms but less than 65 cms where the width of the fabric is less than one metre arising during the normal course of manufacturing (including processing) or packing or drawing samples; and (iii) cut-pieces of damaged or sub-standard fabrics of length more than 23 cms. but less than 45 cms. where the width of the fabric is one metre or more and of length more than 23 cms but less than 65 cms. where the width of the fabric is less than one metre.

According to a survey report of Ahmedabad Textiles Industry's Research Association (ATIRA), the value loss on account of chindis is 0.8 per cent of the total cotton cloth production.[24] Thus the loss of value on this account would work out to be Rs.2334.04 lakhs in 1985-86 as shown in Table C.5. The acceptable length is different for different fabrics and varies widely between the mills. The length for fents, rags

24. ATIRA, Inter-Firm Comparison of Value Loss, Ahmedabad Textiles Industry's Research Association, Ahmedabad, October 1985.

and chindis is found similar in almost all the mills as per the standards specified for the purposes of excise duty. Table C.6 gives the acceptable length for fents, rangs and chindis.

On the basis of the acceptable length for different value loss, the average value-loss on account of chindis, fents, rags and flag allowance works out as 0.8, 6.7, 2.0 and 4.9 (including others) respectively (See Table C.7). In addition, all sorts of samples (i.e., samples of woollen, cotton and man-made fabrics) are exempted because these are not used for sale. The samples are made from fresh cloth. Hence, these are a part of sales-cost. An estimate of sales-value loss is that upto 0.2 per cent of the output is used for samples (Table C.7).

Table C.5

Value Loss on Account of Chindis

Year	Production* Mtrs. '000	Price# Per Mtr.	Output Rs.'000	Chindies (Rs.lakhs)
1985-86	26,66,400	11.42	304,50,288	2436.62
1986-87	24,82,800	11.52	286,01,856	2288.47 average
1987-88	23,07,805	12.33	284,55,235	2277.03 2334.04

Sources: * Statistical Abstract India, CSO, 1987.
Consumer Purchases and Price Trends of Textiles, Quarterly Bulletin No. 203, Oct-Dec. 1988.

Table C.6

Acceptable Length for Fents, Rags and Chindis

(Figures in Metres)

	For Cloth Width Below One Metres	For Cloth Width Above One Metre
Fents	0.45 to 0.90	0.65 to 1.35
Rags	0.23 to 0.44	0.23 to 0.64
Chindis	0.01 to 0.22	0.01 to 0.22

Table C.7

Incidence of Defective Fabrics : Cotton, Man-made and Blended Fabrics

Name of the Defect	Percentage of Total Fabrics on the Defect		
	Minimum	Maximum	Average
Fents	0.6	16.1	6.7
Rags	0.2	6.9	2.0
Chindis	0.1	3.4	0.8
Miscellaneous	0.2	6.0	4.9
Samples*	-	0.2	-

Note: * This is not a defect. From fresh cloth a part of it is used for making samples. This value based on mill practices is upto 0.2 per cent maximum.

Source: Ahmedabad Textile Industry's Research Association (ATIRA).

Exemptions to Khadi

Output of khadi is exempted from tax. Different items under this head include (a) Woollen fabrics, certified as khadi by Khandi and Village Industries Commission (KVIC), (b) Processed khadi and polyvastra, certified as such. As the output of khadi has a historical background and as it provides employment on a continuing basis, the exemption is given to this item. Moreover, the total output from khadi is also not substantial. During 1986-87 and 1987-88, the output of khadi has been as follows:

(Value in Rs. Crore)

Items	1986-87	1987-88
Cotton	135.75 (62.25)	141.39 (62.15)
Malmal	8.04 (3.69)	8.84 (3.89)
Woollen	44.29 (20.31)	42.21 (18.55)
Silk	29.88 (13.70)	35.07 (15.41)
Total	218.06	227.51

Note: Figures within parenthesis indicate per cent to total.

Since there has been no tax on this item from the very beginning, we have not estimated revenue loss on this account. However, if we take the estimate of 4 per cent the total loss of revenue to the States works out to Rs. 8.7 crores.

Exemption Based on Processes and Raw Materials

This category includes various items. For example, melton cloth (made of shoddy yarn) has 'nil' tariff rate. This cloth is a woollen coated fabric which has been heavily felted[25] in the fulling process[26] and which are designed for maximum warmth

25. Felt is a structure built up by the interlocking of fibres by a suitable combination of mechanical work, chemical action, moisture and heat without spinning, weaving or knitting. It may consist of one or more classes of fibre: wool, reprocessed wool, or reused wool with or without admixture with animal, vegetable, and synthetic fibres.

and wear. These are found in man's overcoats, Navy pea jackets and Army overcoats. Nil tariff applies only when the cloth is wooven by a factory other than a composite mill and processed by an independent processor. Rationale of the exemption lies in the fact that the shoddy items are generally meant for poor masses and are produced by decentralised sector. The total output of the item, as per the estimates of Textile Commissioner could be approx. 1.42 million kg. (2.14 million sq. metres). Also, exemption is granted to woollen fabrics subject to the process of calendering[27] with plain rollers or blowing[28] (steam raising) if they have not been sbjected to any other processing in the same factory. In addition, exemption is granted to cotton fabrics that are subjected to the following process:

(i) calendering (other than by grooved rollers);
(ii) flannelette raising;
(iii) Stentering[29];
(iv) Damping on grey and bleached sorts;
(v) Back-filling on grey and bleached sorts;
(vi) Singeing[30];

26. This process implies manipulation in warm soapy water to reduce width and length and close up the cloth.

27. Calendering is, in its simplest form, a passage of cloth between rollers. The differences enter in when one considers the number and type of rollers or bowls, the amount of pressure exerted by the rollers, the rate at which the cloth passes through, and the presence or absence of heat and moisture. The simplest result is smothing, stiffening effect is mangling. Other and specialised results can be achieved by varying one or more of the above variables.

28. Blowing is a method of setting wool in the greige state to prevent possible distortion in further treatment. In this method, the cloth is wound in open width on metal rolers, making sure no wrinkles are present. In blowing, the setting medium is steam blown through the cloth (In another method called 'crabbing', hot water is used). This process is follwed by a second with the cloth rewound to prevent one end being treated differently from the other.

29. It is not strictly a process but rather an adjunct to many processes. In its beginning, a tenter or stenter frame was a stationary frame with pins upon which cloth was stretched to dry, very like the curtain stretcher used in the home for drying certain types of sheer curtains. It is now usually a moving frame with pins or clips for holding cloth. The frames are used to dry cloth at open width under tension.

30. It is a finishing proces in which the cloth is passed in full width between open gas flames. These burn off any ends worked loose from the yarns. The cloth passes from the flame to the trough of water, where any sparks are extinguished, before continuing on the finishing range.

(vii) Scouring[31];
(viii) Cropping or butta-cutting;
(ix) Curing or heat setting;
(x) Padding[32]
(xi) Expanding; and
(xii) Hydro-extraction with the aid of power;

Exemptions have been granted to give competetive advantage for manual/mechanical processes adopted by small weavers or processors against highly mechanised processes adopted by the composite mills.

Woven woollen fabrics of low quality viz., hair belting and shoddy blankets from indigenous wool are also exempted. Generally, the width of hair belting is less than 15 cms. and as per excise tariff all the fabrics of such width are exempted. However, according to the estimates of the Ministry of Textile, the production of belting in 1987-88 could be expected to be 50 lakh inch feet. Shoddy blankets are cheaper blankets produced by decentralised sector catering to the needs of masses and of the lower strata of the population. The estimated production in 1987-88 is as follows:

Million (Kgs)	Million (Sq. mtrs)
22.80	34.21
16.47	24.70
39.27	58.91

Exemptions include woven fabrics of wool which either (i) do not contain any worsted yarn[33] or (ii) are made of shoddy yarn whose value do not exceed Rs.60 per sq. metre. These products are meant for masses and produced by decentralised sector. It is

31. Scouring is the washing process which removes from the cloth the soil and oil incident upon weaving fugitive tints used for yarn identification in synthetics are also removed in this process.

32. A method of applying colour by running the fabrics through a dye liquid and then between heavy rollers which force the dye into the fabric.

33. The worsted yarn are spun from longer staple wool and the fibres are made to lie parallel. The worsted yarn is smooth and strong.

estimated that 70 per cent of the shoddy/indigenous woollen (excluding the indigenous raw wool for carpet sector and combworthy wool) products will fall in this range and as per the esitmates of the Textile Commissioner, the output is estimated at 31.48 million kgs. (47.22 million sq. metres).

Mohair fabrics manufactured without the aid of power are exempted for AEDILST. These are the fabrics made of Angora goat known as mohair. The hair from these animals are fairly fine, 7 to 10 inches in length, lustrous, and soft. It is also very strong. The grades of mohair vary according to the amount of kemp (i.e., coarse, highly modulated fibre which does not absorb dye well, found in some wool). The presence of kemp can cause considerable difficulty to the processor in combing, and to the dyer in dyeing. However, except for the kemp, mohair takes dye readily and maintains the brilliance and sheen of high fashion colours. The exemption is granted to encourage production without the aid of power.

Exemptions for Special Sectors

There are a few special sectors that require protected treatment. For example, cotton hosiery. It is exempted from tax. This is primarily due to the fact that it is reserved for SSI sector. The total estimated production in 1989-90 is 1151 million metres. Also, cotton fabrics and man-made fabrics woven in prison and processed outside by an independent processor are exempted. This is due to the fact that the overall scheme is for the welfare of the prisoners. However, some of the items of textiles viz., rubberised textiles (weighing more than 1500 gms. per sq. metre in which rubber predominated by weight), terry toweling of material (other than cotton or man-made fabric/yarn), and knitted or crocheted fabrics without aid of power or steam have been exempted without specific rationale. The estimates of output of these items, as shown in Table C.8, suggests that the States having substantial production of these items could be losing considerable revenue. It is estimated that the total loss of revenue to the States at a low rate of 4 per cent could be aproximately Rs.60 crores.

Estimate of Loss of Revenue from Textiles

The above analysis indicates that most of the exemptions under textiles do not lend support to the argument that the States would get more revenue by withdrawing the exemptions. The overall estimate of loss of base, as given in Table C.8, indicates that the total exemptions could be enumerated as follows:

Table C.8

Estimates of Output for Items of Textiles Exempted under AEDILST

(Rs.Lakhs)

Tariff Heading/ Sub-Heading No.	Description	Output	Sources
(1)	(2)	(3)	(4)
5107.21	Woollen fabrics certified as Khadi by Khadi and Village Industries Commission.	19955	1
52	Processed Khadi and polyvastra certified as such.	570	1
5107.31	Melton cloth	950.81	2
5107.24, 32, 39, 41, 42,49, 91&92&99	Woven fabrics of wool which either (i) do not contain any worsted yarn or. are made of shoddy yarn whose value does not exceed Rs.60 per sq. metre.	181.36	2
52.05 & 5802.11	Unprocessed woollen fabrics including terry toweling and similar woollen fabrics.	7886.34 3562.3	2 4
52.05 to 52.12,58.02, 58.05,59.03, 59.06	Samples of cotton fabrics and man-made fabrics	.58 40429	6 4
6001.11	Hosiery of cotton	2.81	2
52	Cotton fabrics subjected to the following processes	549.44 719.11	2 4
54.08, 55.07, 5802.13	Unprocessed woven fabrics from filament yarn and staple fibres including terring toweling and similar woven fabrics.	1189.67 2102.62	2 4
54 & 55	Man made fabrics subjected to the following processes only: 1) Calendering with plain rollers 2) Singering 3) Padding 4) Back filling 5) Crappling 6) Hydro extraction	37.36	2

Table C.8 (Cont'd)

Estimates of Output for Items of Textiles Exempted under AEDILST

(Rs.Lakhs)

Tariff Heading/ Sub-Heading No.	Description	Output	Sources
(1)	(2)	(3)	(4)
5806.10	Narrow woven fabrics of silk wool, cotton or other man-made materials.	61.55	2
5903.11 5903.21	Cotton or textile fabrics of man-made materials coated or laminated with preparations of LDPE.	294.14	2
59.05	Rubberised textile fabrics weighing more than 1500 gms per sq. metre and in which rubber predominated by weight.	743.16	2
5802.90	Terry toweling of material other than cotton or man-made fibre/yarn.	476.80	2
6001.90	All knitted or crocheted fabrics without aid of power or steam Woollen hosiery.	149776.5	2
	Chindis	2334.04	6

Notes: Sources given with numbers refer to as follows:
(1) KVIC Annual Report
(2) TRU
(3) Indian Tobacco Journal (Oct-Dec. 1989).
(4) Collectorate
(5) ASI (1985-86) Factory Sector
(6) ATIRA.

		Rs. Crores
(a)	Khadi and Handloom including silk	2342
(b)	Melton cloth and other cheap cloths	102
(c)	Special processes	21
(d)	Chindis and samples	23
(e)	Special sectors	1500

Thus, the total loss of base due to exemptions is estimated to be Rs.4000 crores approximately. As tax has never been levied on any of these items, it is difficult to assume a particular tax rate, without which we cannot estimate the loss of revenue with any certainty. However, if we assume a minimum rate of 4 per cent the total loss of revenue to the States is of the order of Rs.160 crores.

CHAPTER 4

Policy Imperatives

The economic rationale of exemptions under AEDILST as well as the empirical estimates of probable loss of revenue due to the exemptions, as presented in the preceding chapter, do not reveal any sizable loss to the States. Nevertheless, the exasperation of States over these exemptions indicates their resentment against the entire approach of Centre. It is, therefore, essential that we examine the exemptions under AEDILST along with an examination of the reasons for resentment.

Bearing in mind the entire perspective of AEDILST and suitable policy recommendations to be evolved, we contemplate the following policy aspects: First, the AEDILST is a rental arrangement between the Centre and the State. As such, the States must agree to its continuation. Under no circumstances, the States should get an impression that the Centre is shirking its responsibility to mobilise additional resources from the AEDILST. If for administrative reasons, the Centre cannot tax a particular item, the base of the tax should be returned to the States. Second, the growth of revenue from AEDILST should at least be comparable to the increase in yield from basic excise duties. In fact, the States have been protesting on this count[1] and in spite of the efforts of NDC, the increase in the yield of AEDILST has been wanting. An estimation of buoyancy of basic excises compared to the buoyancy of AEDILST suggests that the States view point is certainly relevant. We would, therefore, examine the base of the tax in its broader perspective.

Keeping the above points in view, we present below our policy recommendations:

1. The matter was examined by the Fifth Finance Commission and also by a group of Central and State Government Officers. Subsequently, the NDC in its meeting held in December 1970 inter alia recommended a ratio of 2:1 between the basic and the additional excise and an incidence of AEDILST of 10.8 per cent of the clearances. The ratio of 2:1 was achieved in 1981-82 and the incidence of 10.8 per cent in 1989-90.

1. Adoption of MODVAT in Tobacco

Our first recommendation relates to tobacco. This flows from our estimation of revenue loss due to exemption to unmanufactured tobacco. As presented in Chapter III, the Centre has compensated the States for revenue loss due to this exemption. However, the estimation reveals that the States are partly compensated . They have got the yield with a growth rate (during 1972-73 to 1978-79) of 5.77 per cent per annum. During the later period, the growth of revenue must have increased considerably.

Comparing the attained growth rate of AEDILST on tobacco with the growth of sales tax revenue during the last decade, it is crystal clear that the States have not really got their due share from AEDILST. The Centre should not, therefore, adopt the attitude of complacency. Hence, there is a need to expand the tax base. In this context we recommend that the existing scheme of MODVAT (under Union excise duty) should be extended to both unmanufactured tobacco and manufactured tobacco.

This would result in larger revenue for States because it would capture broader base and check evasion of tax. Also, this would be a multi-stage tax rather than the present final-stage tax. In principle, it would be a comprehensive tax; levied and collected at all stages of production. Thus the input would be taxed only once and hence not only is cascading avoided, but the incidence on the final product is also controlled. Such a tax would be neutral between different types of business organisations, methods of production, industries and occupations. Also, it would not encourage vertical integration of firms. It is, therefore, recommended that the existing scheme of MODVAT is extended to cover tobacco as well.

2. Surrendering Tax Base to the States

Our estimation of revenue loss on account of Khandsari indicates that the States would stand to gain about Rs.2 crores from AEDILST if a tax is levied on this item. As our estimates are based on tax rate of 1976-77, it is reasonable to assume that the actual yield with 1990-91 rates, would be substantially more.

From the stand point of Union, collection of tax on all-India basis might be a difficult proposition because the industry is located in a few States only, three of the States (Gujarat, Uttar Pradesh and Haryana) accounting for more than seventy per cent of the output. On the contrary, from the States' angle (those having Khandsari industry located in the State), this could obviously be a source of revenue for them. If the tax is levied by the Centre, these States would have their share in the pie and if the tax base is returned to the States, then these States would collect local sales tax (GST) on the sales within the State and Central Sales Tax (CST) on the sales (including consignments sent) out of the States. It would, therefore, be useful to withdraw this exemption.

The arguments put forth by the Centre for exempting Khandsari are that these units are very small and are located in decentralised sector. Our analysis of the production norms, as given in preceding chapter, suggests that the units employing sulphitation plants do produce better quality and larger quantity of Khandsari. The norms of production suggest that a small plant using a centrifugal of 9"x18" could normally produce about 35 to 40 quintals per day. This would amount to approximately 8000 quintals per year. Such a unit cannot possibly be categorised as a small unit. Besides, these plants could also produce second and third process Khandsari.

Normally, the village industries or small scale sector without using power do get concessional treatment from tax. In Khandsari, power is used in many plants. It is firstly employed in crushing sugarcane and secondly for purging 'Rab' in centrifugals. It is quite natural to argue that the units employing power cannot be very small and need not be exempted from tax.

It is, therefore, recommended that the tax must be levied on Khandsari. At least a compounded levy (as prevalent earlier) could easily be levied. As the Centre has not been taxing Khandsari, the States contributing larger share to the output have already started levying sales tax on it. The tax is already in vogue without having any adverse effect on employment or on prices. Hence, it is recommended that either the Centre must tax it or return this base to the States by excluding this from the purview of AEDILST.

Similarly, some of the items of textiles viz., rubberised textiles, knitted or chrocheted fabrics, and fabrics of man-made materials coated or filamented with preparation of LDPE, have been exempted under AEDILST. The estimation of output, as shown in Table C.8, indicates that the States having substantial production of these items could be losing considerable revenue. It is estimated that the total loss of revenue to the States at a low rate of 4 per cent could be approximately Rs.60 crores. It is, therefore, suggested that these items be transferred to the States for levy of sales tax by them.

3. Inclusion of Yarn in AEDILST

The trends in yield of basic excise duty on textiles, as presented in Table 5.1, shows that it increased from Rs.73.35 crore in 1970-71 to Rs.139.07 crore in 1983-84 but since then the yield has declined to 80.22 crore in 1987-88. On the contrary, the yield from AEDILST on textiles has also gone up from Rs.22.80 crore in 1970-71 to Rs.439.90 crore in 1987-88.

Owing to the above trend the ratio of basic excises on textiles and AEDILST on it has come down from 3.22:1 in 1970-71 to 0.18:1 in 1987-88. This has been in consonance with the resolution of the NDC to maintain the ratio between basic and additional duty to 2:1.

Notwithstanding the above trend in following the resolution of the NDC, in actual practice the Centre has increasingly mobilised revenue from yarn and the raw materials of yarn (viz., DMT, PTA, NFY, PFY and VSF). There is a clear trend showing a decline in the yield from basic excises on fabrics and increase in the yield from yarn. This has, on the face of it, shown a declining ratio between basic and additional duty but in actual practice, the result is different. As shown in Table 5.1, the yield of basic excise from yarn and textiles has increased from Rs.195 crore in 1970-71 to Rs.1811 crore in 1987-88. Comparing this trend with the trend of the AEDILST, we find that the ratio of the two (viz., basic excises on yarn plus fabrics and AEDILST on fabrics) has declined from 8.55:1 in 1970-71 to 4.99:1 in 1981-82. Since then the ratio has almost been static.

The above analysis reveals that the yarn and fabrics are not different bases for the purpose of taxation. At times the Centre has raised tax revenue by resorting to taxation of yarn or its raw materials. Over, the years the trend is on an increase and in recent budget of 1990-91, the Finance Minister has proposed to "transfer the whole of the basic duty on cotton fabrics to yarn".

The Union Government has resorted to such a tax primarily to reduce the evasion of tax and to rationalise duty structure on fabrics. The Finance Minister has suggested in the 1990-91 budget that "there is thus a near unanimous view in favour of transferring the excise duty from fabrics to yarn, which I share. However, in the case of man-made fabrics, the entire duty is by way of AEDILST. Therefore, any change in the duty structure can be made in consultation with the States. I propose to consult the Chief Ministers shortly in this regard."

TABLE 5.1

Trends in Yield from Basic Duty on Yarn and Fabrics and Additional Duty on Fabrics

(Rs. Crores)

Year	Basic, Auxiliary, Special & Addl.Duty		Additional Excise Duty in lieu of Sales Tax	Total of 1+2	Ratio of	
	Yarn	Cloth*			2:3	4:3
1	2	3	4	5	6	7
1960-61	2.95	47.99	20.13	50.94	2.38:1	2.53:1
1970-71	121.69	73.35	22.80	195.04	3.22:1	8.55:1
1971-72	125.36	72.08	29.77	197.44	2.42:1	6.63:1
1975-76	363.02	85.33	63.31	448.35	1.35:1	7.08:1
1980-81	651.30	129.18	133.86	780.48	0.96:1	5.83:1
1981-82	676.41	133.39	162.07	809.80	0.82:1	4.99:1
1982-83	683.50	125.50	166.44	809.00	0.75:1	4.86:1
1983-84	1054.86	139.07	246.86	1193.93	0.56:1	4.84:1
1984-85	1201.20	113.84	252.84	1315.04	0.45:1	5.20:1
1985-86	1236.50	105.01	328.99	1341.51	0.32:1	4.08:1
1986-87	1431.86	117.93	460.36	1549.79	0.26:1	3.37:1
1987-88	1731.00	80.22	439.90	1811.22	0.18:1	4.12:1
1988-89	1783.92	92.80	548.92	1876.72	0.17:1	3.42:1

Note: * The data upto 1970-71 related to Cotton fabrics & Man-made fabrics.

Source: (1) Hand Book of Statistics on Cotton Textile Industry - The Indian Cotton Mills Federation for Column No. 1 upto 1988-89 and for column No. 2 & 3 upto 1970-71.

(2) TRU - for column No.2&3 from 1971-72 to 1988-89.

To overcome this problem of the Centre and to have financial gains for the States we should allow rationalisation of the tax structure. The share from the AEDILST should include tax on all these items and the calculation of the ratio of AEDILST to the yield of basic excise should take account of the entire tax base (viz., raw materials, yarn and fabrics). This would deter the Centre from deriving exclusive benefit from the base; the States would have to be given their share in the pie. Presently, the Centre is shifting to the yarn stage. Inclusion of yarn in the divisible pool of the AEDILST would deter the Centre from adopting this strategy.

CHAPTER 5

Executive Summary

Sales tax is a State subject. However, under the Constitution there are certain restrictions. Besides, Additional Excise Duties in Lieu of Sales Tax (AEDILST) was first levied by the Central Government in 1957 on textiles, tobacco and sugar. This was done in pursuance of an agreement reached between the Centre and States at the meeting of the National Development Council (NDC) held in December, 1956. The States agreed to abolish sales tax on these commodities in favour of AEDILST. In recompense, the entire net proceeds of these duties were assigned to the States. Thus it is a tax-rental arrangement between the Centre and the States.

According to the decision of National Development Council the proceeds of AEDILST are distributed among the States and the determination of the respective share of States in the net proceeds from AEDILST was referred to the Finance Commission. The State governments can levy sales tax on these commodities but, not without forfeiting their share in the additional excise duties. Most of the State governments are not satisfied with the implementation of the scheme. The Committee of NDC in its meeting held in 1970, agreed to the continuance of the scheme subjected to the following conditions:-

i. duties being converted into ad valorem except in the case of manufactured tobacco;

ii. incidence of additional excise duty should be raised to 10.8 per cent of the value of clearance;

iii. ratio between the basic and additional duty should be 2:1; and

iv. a Standing Review Committee may be set up for reviewing the working of the scheme.

The agreement between the Centre and the States provides that the distribution of the income derived from AEDILST should be on the basis of the consumption of these commodities in each State. The States were also assured payment of the sums they derived from sales tax on these commodities during 1956-57. The matter of distribution was referred to the Finance Commissions.

All the Finance Commissions so far agreed on the basic premise that the receipts ought to be distributed amongst the States on the basis of consumption. Where they have differed, however, is in the manner of measuring consumption, since there were no precise figures of consumption.

The Ninth Finance Commission was required by the Presidential Order to examine the feasibility of the merger of additional duties of excise in lieu of sale tax with basic duties of excise and evolve a suitable formula for allocating a part of the duties of excise in respect of the goods falling under the AEDILST. As the States vehemently opposed this idea, the Finance Commission has opined against any such merger. Further, it has stressed the need to review various exemptions under AEDILST.

Objectives of the Study

The Ninth Finance Commission in its Interim Report observed that the State governments had expressed serious misgivings relating to the numerous exemptions issued by the Central Government in respect of goods which would otherwise have attracted additional excise duties. The Finance Commission, therefore, recommended that the Standing Review Committee for AEDILST should meet and discuss this issue.

Accordingly, the Committee considered the views of the States and recommended that a study should be conducted by an independent research organisation and results of the study should be placed before the next meeting of the Standing Review Committee.

Consequently, the Central Board of Excise and Customs entrusted this study to the NIPFP with the following terms of reference:

(a) To assess revenue loss to the States on account of exemptions under AEDILST;

(b) To examine the rationale and desirability of continuance of the exemptions;

(c) To recommend policy prescriptions in regard to the above aspects.

States' Views on AEDILST

For the first time, the Fifth Finance Commission was confronted with the general opposition of the States to the levy of additional excise duties by the Union Government. Hence, the Finance Commission observed that it would not be desirable to continue the scheme unless the Union and the States agreed to its continuance with suitable modifications. In the light of these observations, the matter was brought up before the National Development Council which in its meeting held on the 28th December, 1970, resolved in favour of continuance of the arrangement with some stipulations.

The recommendations of the National Development Council were accepted by the Government of India, but these were not fully implemented for a long time.

The Seventh Finance Commission had also commented upon the tardy progress in the implementation of the decisions. It was decided that the expected incidence of AEDILST as percentage of value of clearance should be reached in three stages - 8.5 in 1984-85, 9.75 in 1987-88 and 10.8 by 1989-90 which means that the target of 10.8 per cent, which should have been achieved by 1973, was now sought to be achieved by 1989-90, that is, after a lapse of 17 years.

The State governments have various reservations on the overall issue of the AEDILST. First, the States have a feeling that the amendment of Section 14 of the CST Act has indirectly enlarged the scope of these definitions. Second, the definition of the goods liable to AEDILST, particularly of textiles, has been enlarged too much. Third, the Union government levies cess on some of the commodities. Fourth, there are many commodities which are subject to nil rate of duty; but at the same time States are precluded from levying sales tax on these commodities wihout losing their share in the proceeds from AEDILST. This has resulted in large loss of revenue to States. Fifth, the States have argued that the proceeds of AEDILST should be distributed on the basis of consumption. Finally, most of the States have expressed the view that the levy of additional excise duty is the result of the tax rental agreement between the Centre and the State, and the Centre cannot arrogate to itself the right to refer the matter relating to the merger of AEDILST with the basic duties of excise to the Finance Commission without consulting the States.

Estimating Loss of Revenue Due to Exemptions

A large number of exemptions have been notified by the Centre under the AEDILST. These exemptions, as shown in Annexure 1 to the study, relate to all the items under AEDILST. There are four exemptions relating to sugar, eleven to tobacco and forty-five relating to textiles. Most of these items are related to specific product-characteristics or to special activities. Many of these exemptions have been prevalent from the inception of the tax but some of these were added after the levy of AEDILST. In analysing these exemptions we have to keep in mind the objectives of granting exemptions as follows: First, the revenue productivity is an important objective.Second, administrative expediency is extremely important. Finally, economic effects and incidence of the tax are crucial for analysing the rationale of the tax.

Keeping in view the above objectives, we would examine the desirability of granting each of the exemptions. We would then estimate the loss of revenue on account of those exemptions that could be usefully taxed under AEDILST. For this purpose, we would estimate the loss of revenue for an average of three years viz., 1984-85 to 1986-87.

Sugar

In this category the exemptions relate to khandsari, palmyrah sugar, samples of sugar and the sugar in relation to the manufacture of which no process is ordinarily carried on with the aid of power. As regards samples of sugar, these are not sold or consumed. Hence, there cannot be any tax even when the base is left with the States. Similarly, the production of sugar in decentralised sector cannot be taxed. The administrative machinery required for this purpose would cost more than the amount of revenue generated. Hence, we analyse khandsari and palmyrah sugar.

Exemption to Khandsari

Khandsari is produced with or without the aid of sulphitation plant. Sulphitation process improves the quality of khandsari and also the percentage recovery. The production in sulphitation plant is qualitatively better and quantitatively larger.

Power could be used in the manufacture of khandsari, firstly, in crushing of sugarcane and secondly for purging of "Rab" in centrifugals. Excise duty was earlier being levied when khandsari was produced in power driven centrifugals. When manufactured without the aid of sulphitation plant by hand driven centrifugals or any other non-power operated contrivance even if Rab utilised is manufactured with the aid of power was exempted from excise duty. Such units have also been exempted from licensing controls.

Production of Khandsari

Production and consumption of khandsari (including gur) occupies an important place. Nearly 2/3rd of the total output of sugarcane is utilised for its production. The trend in production of khandsari indicates the output varies between 22 lakh and 50 lakh during 1976-77 and 1983-84. Here it is important to note that the estimates of khandsari production are derived ones.

Tax Treatment of Khandsari

AEDILST was first levied on khandsari in the budget for 1959-60. However, on April 20, 1965 a differential rate of tax was levied. From March 1, 1969 the basis of levy was changed from specific to ad valorem rates. The tax for the AEDILST was fixed at 4 per cent but the effective rate was 2.5 per cent ad valorem for both the procedures. The rate was increased from March 1, 1970. Also, there was a system of compounded levy on khandsari units. With effect from March 1, 1984 the duty on khandsari was classified with a nil rate of duty. The revenue sacrifice involved in this proposal was Rs.16.42 crores.

Estimating Loss of Revenue from Khandsari

For estimating loss of revenue to the States, we have adopted the following methodology. The actual production data for khandsari are reported by the Tax Research Unit. Combined data for production of "khandsari and gur" are reported by All India Sugar Mills Association. Comparing the trends of the two series, we calculated proportion of khandsari to the total of khandsari and gur. Then taking the average proportions, we estimate the production of khandsari. It is estimated that the States are losing revenue to the extent of Rs.2 crores.

Palmyrah Sugar

This is an output of palm, botanically known as Palmae. There are four varieties of sugar yielding palm. They grow on wastelands requiring hardly any manuring or irrigation. The total number of trees tapped for producing this sugar is insignificant. Of the total estimated palmyrah wealth only 17 per cent of these are tapped annually and mostly through cooperative societies which are normally exempt from tax. Even otherwise the total output of palmyrah sugar is inconsequential for the revenue of AEDILST. This being mainly in the village industries, there are administrative difficulties in taxing the product. The estimation of loss of revenue is, therefore, inconsequential.

Tobacco

Tobacco could be taxed at the stage of cultivation or at the time of its use for manufacture of another product.In the Budget of 1979, the Finance Minister proposed to completely exempt unmanufactured tobacco duties. This measure involved loss of AEDILST revenue of the order of 19 crores. The Union Government was of the view that the exemption of AEDILST on unmanufactured tobacco is compensated for by increasing the tax base on manufactured tobacco and the rates of tax on it. However, to examine the claim of the Union Government, we have attempted to estimate the yield from the 1978-79 tax base of tobacco. We have estimated effective rate of tax. This tax rate is applied to the yield of the unmanufactured tobacco in the later years. As the yield and clearances bear a proportionate relationship, we have used the ratio of yield to clearances (as available during 1972-73 to 1978-79) to obtain actual tax base (clearances). Thus, the estimated yield is obtained by applying effective tax rate on estimated clearances during the years 1983-84 to 1985-86. This gives us plausible tax yield from the unmanufactured tobacco. As cigarettes and beedis were already taxed, we have attempted to set off the estimated tax yield from these items at rates prevailing in 1978-79. The trend in the net yield suggests that there is no significant loss of revenue.

Exemption to Cut Tobacco

This item is a variant of unmanufactured tobacco. Hence, this item was not supposed to be a base of the tax when the unmanufactured tobacco was exempted. However, some of the officers of the excise department viewed this as an independent item under the list of manufactured tobacco products and attempted to levy tax on the same. Hence to avoid duplication of taxing the same base this was separately listed as an item of 'nil' tariff. In this study, no separate estimation of loss of revenue is attempted for this commodity.

Other Exempted Items of Manufactured Tobacco

There are many items under this category including (i) cigars and cheroots, (ii) cigarillos of tobacco, (iii) hookah tobacco, (iv) unbranded beedis, (v) unbranded gudaku, (vi) chewing tobacco, and (vii) preparation containing snuff of tobacco. In addition, samples of tobacco are also exempt.

As the cigar and cheroot industry is one of the oldest tobacco industries in the country employing artisans and manual workers, it would be in the interest of the nation to see that this industry is not allowed to become extinct. Hence, exemption of AEDILST is based on the rationale of keeping the industry alive. However, the total loss of revenue on this account, as seen from the trend in output, is estimated (taking average for the years 1983-84 to 1985-86) to be Rs.45 thousand only. Hookah tobacco not bearing brand name has been classified as 'nil' rate and that bearing brand name is notified as exempted w.e.f. March 1, 1986. This exemption is based on the fact that unmanufactured tobacco cleared on payment of duty for manufacture of Hookah Tobacco has declined considerably. However, the total loss of revenue, on account of hookah tobacco, taking average of three years (for which data are available) is estimated to be Rs.3.39 lakhs per year.

The exemption to unbranded beedis is not a new one. In fact, its coverage has slowly reduced. As of today, only "unbranded beedis made without machine by or on behalf of a manufacturer from one or more factories upto a quantity but not exceeding 20 lakh in a financial year" are exempt. That is, all other beedis are taxed and the yield of AEDILST from beedis is consistently increasing. The exemption to unbranded beedis is to protect hand-made beedis against machine made beedis. Since it is the hand-made beedis which provide employment to a large number of people, it has been granted to see that the interest of the employment is not affected. Strictly speaking, unbranded beedis were never taxed. They are stil not taxed. Besides, the output is so small that even if we estimate loss of revenue at a nominal rate, the yield would be very small.

The other exempted items include unbranded gudaku, cigarillos of tobacco, chewing tobacco, snuff of tobacco and samples of tobacco. Among these items samples of tobacco are not consumed and cannot be taxed. Rest of the items are not of any consequential amount.

Textiles

Textiles industry contributes significantly to our national income. Its contribution, however, is on the decline. The trends in clearances of different textiles show that the clearances of cotton textiles are on the decline; its proportion in total textiles was 37 per cent in 1983-84 which came down to 29 per cent in 1987-88. Man-made fabrics have increased substantially over the same period.

Exemptions under Textiles

There are numerous exemptions under textiles. These could however be grouped into a few specific categories. First, silk fabrics along with embroidery on silk are exempt. Second, khadi and handloom textiles including unprocessed, processed without the aid of power, processed by a registered co-oerative society, and fabrics subjected to special processes are also not chindis, fents, rags and flag-allowance) are also not included in the base. Fourth, the low quality fabrics or the fabrics used as necessity are exempted. This includes controlled cloth, hair belting, shoddy blankets, melton cloth, woollen fabrics of animal or coarse hair or of shoddy yarn, mohair fabrics, and crocheted fabrics. Finally, all varieties of samples are also not taxable.

Exemption of Silk Fabrics

Rationale of exemption to silk industry lies in its being a cottage industry par excellence. The total annual raw silk production averages around 9,500 tonnes, of which silk-waste is around 3,300 tonnes per annum. India's raw silk production has increased to 8,455 tonnes in 1987 from 2,376 tonnes in 1975, more than two and a half times increase. Most of the production being in handloom sector taxation of the silk fabrics is administratively very difficult.

Exemption for Handlooms

The handloom industry is the oldest industry of the country, and provides employment to a large number of people. A recent census undertaken by the NCAER, shows that the total production of all types of handloom fabrics (dhotee, saree, furnishings, etc.) is of the order of 330 crore linear meters. The value estimates of output from handloom sector, as reported by the Handloom Commissioner is Rs.2053 crores but the estimates available from the TRU indicate much lower figure. It is only Rs.639 crores. Difference between these two figures being considerable, we might take an average of the two to arrive at a reasonable estimate, which comes to Rs.1346 crores. As there has been no tax on handloom, it is difficult to assume any tax rate to estimate the loss of revenue. Nevertheless, taking the CST rate of 4 per cent we estimate that the States stand to lose revenue to the extent of Rs.53.84 crores.

Exemption to Chindis, Fents, Rags, Flag Allowance and Samples

Value loss in production is obviously no base for taxation. The production loss also includes fents. According to a survey report of Ahmedabad Textiles Industry's Research Association (ATIRA), the value loss on account of chindis is 0.8 per cent of the total cotton cloth production. Thus the loss of value on this account would work out to be Rs.2334.04 lakhs in 1985-86.

Exemptions to Khadi

Output of khadi is exempted from tax. During 1986-87 and 1987-88, the output of khadi was Rs.218.06 crores and 227.51 crores, respectively. Since there has been no tax on this item from the very beginning, we cannot have any tax rate to estimate the loss of revenue. However, if we take the estimate at 4 per cent, the CST rate, the total loss of revenue to the States works out to Rs.8.7 crores.

Exemption Based on Processes and Raw Materials

This category includes various items. For example, melton cloth (made of shoddy yarn) has 'nil' tariff rate. This cloth is a woollen coated fabric which has been heavily felted in the fulling process and which are designed for maximum warmth and wear. Rationale of the exemption lies in the fact that the shoddy items are generally meant for poor masses and are produced by decentralised sector. The total output could be approximately 1.42 million kg. Also, exemption is granted to woollen fabrics subject to the process of calendering with plain rollers or blowing (steam raising) if they have not been subjected to any other processing in the same factory. In addition, exemption is granted to cotton fabrics that are subjected to various other processes. These exemption have been granted to give competitive advantage for manual/mechanical processes adopted by small weavers or processors against highly mechanised processes adopted by the composite mills.

Woven woollen fabrics of low quality viz., hair belting and shoddy blankets from indigenous wool are also exempted. The production of belting in 1987-88 could be expected to be 50 lakh inch feet. Shoddy blankets are cheaper blankets produced by decentralised sector catering to the needs of masses and of the lower strata of the population. The estimated production in 1987-88 was 58.91 sq. metres.

Other exemptions in this category include woven fabrics of wool which either (i) do not contain any worsted yarn or (ii) are made of shoddy yarn whose value does not exceed Rs.60 per sq. metre. These products are meant for masses and produced by decentralised sector. It is estimated that the output could be at 31.48 million kgs. (47.22 million sq. metres). Similarly, mohair fabrics manufactured without the aid of power are exempted. Production of these items is insignificant in the total textile sector.

Exemptions for Special Sectors

There are a few special sectors that require protected treatment. For example, cotton hosiery is one such, which is exempted. Exemption has been given as it is reserved for SSI sector. The total estimated production of cotton hosiery in 1989-90 is 1151 million metres. Also, cotton fabrics and man-made fabrics woven in prison and processed outside by an independent processor are exempted. This exemption has been granted as the overall scheme is meant for the welfare of the prisoners. However, some of the items of textiles viz., rubberised textiles (weighing more than 1500 gms. per sq. metre in which rubber predominated by weight), terry toweling of material (other than cotton or man-made fabric/yarn), and knitted or crocheted fabrics without aid of power or steam have been exempted without any specific rationale. The estimates of output of these items suggests that the States having substantial production of these items could be losing considerable size of revenue. It is estimated that the total loss of revenue to the States at a low rate of 4 per cent could be approximately Rs.60 crores.

Estimate of Loss of Revenue from Textiles

The above analysis indicates that most of the exemptions under textiles do not lend support to the argument that the States would get more revenue by withdrawing the exemptions. The overall estimate of loss of base indicate that the total exemptions could be of the order of Rs.160 crores.

Policy Imperatives

The economic rationale of exemptions under AEDILST as well as the empirical estimates of probable loss of revenue due to the exemptions do not indicate any voluminous loss to the States. Nevertheless, the exasperation of States over these exemptions indicates their resentment against the entire approach of Centre.

While formulating policy recommendations, we would keep in mind the following policy aspects: First, the AEDILST is a rental arrangement between the Centre and the State and second, the growth of revenue from AEDILST should at least be comparable to the increase in yield from basic excise duties. Keeping the above points in view, we present below our policy recommendations:

1. Adoption of MODVAT in Tobacco

Our first recommendation relates to tobacco. This flows from our estimation of revenue loss due to exemption to unmanufactured tobacco. The estimation of loss of revenue presented in the Report reveals that the States are only partly compensated. They have got the yield with a growth rate (during 1972-73 to 1978-79) of 5.77 per cent per annum. During the later period, the growth of revenue must have increased considerably.

Comparing the attained growth rate of AEDILST on tobacco with the growth of sales tax revenue during the last decade, it is crystal clear that the States have not really got their due share from AEDILST. Hence, there is a need to expand the tax base. In this context we recommend that the existing scheme of MODVAT (under Union excise duty) should be extended to both unmanufactured tobacco and manufactured tobacco. This would result in larger revenue for States because it would capture broader base and check evasion of tax.

2. Surrendering Tax Base to the States

Our estimation of revenue loss on account of Khandsari indicates that the States would stand to gain about Rs.2 crores from AEDILST if a tax is levied on this item. As the Centre has not been taxing Khandsari, the States contributing larger share to the output have already started levying sales tax on it. The tax is already in vogue without having any adverse effect on employment or on prices. Hence, it is recommended that either the Centre must tax it or return this base to the States by excluding this from the purview of AEDILST.

Similarly, some of the items of textiles viz., rubberised textiles, knitted or chrocheted fabrics, and fabrics of man-made materials coated or filamented with preparation of LDPE, have been exempted under AEDILST. The estimation of output indicates that the States having substantial production of these items could be losing considerable revenue. It is estimated that the total loss of revenue to the States at a low rate of 4 per cent could be approximately Rs.60 crores. It is, theefore, suggested that these items be transferred to the States for levy of sales tax by them.

3. Inclusion of Yarn in AEDILST

The trends in yield of basic excise duty on textiles shows that it increased from Rs.73.35 crore in 1970-71 to Rs.139.07 crore in 1983-84 but since then the yield has declined to 80.22 crore in 1987-88. On the contrary, the yield from AEDILST on textiles has gone up from Rs.22.80 crore in 1970-71 to Rs.439.90 crore in 1987-88.

Notwithstanding the above trend in actual practice the Centre has increasingly mobilised revenue from yarn and the raw materials of yarn (viz., DMT, PTA, NFY, PFY and VSF). There is a clear trend showing a decline in the yield from basic excises on fabrics and increase in the yield from yarn. This has, on the face of it, shown a declining ratio between basic and additional duty but in actual practice, the result is different. The yield of basic excise from yarn and textiles has increased. Comparing this trend with that of the AEDILST, we find that the ratio of the two (viz., basic excises on yarn plus fabrics and AEDILST on fabrics) has declined from 8.55:1 in 1970-71 to 4.99:1 in 1981-82. Since then the ratio has almost been static.

The above analysis reveals that the yarn and fabrics are not different bases for the purpose of taxation. At times the Centre has raised tax revenue by resorting to taxation of yarn or its raw materials. Over the years this trend is on an increase.

To overcome this problem of the Centre and to secure financial gains for the States we should allow rationalisation of the tax structure. The share from the AEDILST should include tax on all these items and the calculation of the ratio of AEDILST to the yield of basic excise should take into account of the entire tax base (viz., raw materials, yarn and fabrics). This would deter the Centre from deriving exclusive benefit from the base. Inclusion of yarn in the divisible pool of the AEDILST would deter the Centre from adopting this strategy.

ANNEXURE 1

List Of Items Exempted Under Additional Excise Duty In Lieu Of Sales Tax (As on 1.3.89)

Sl. No.	Tariff Heading/ Sub-heading number	Description of Exempted goods	Notification number under which exempted.
(1)	(2)	(3)	(4)
SUGAR			
1.	1701.20	Khandsari Sugar	Tariff rate is NIL
2.	1702.11	Palmyra Sugar	Tariff rate is NIL
3.	1701.10	Sugar in relation to the manufacture of which no process is oridinarily carried on with the aid of power.	Not included in the Tariff for Add Excise Duties.
4.	17.01 and 17.02	Samples of Sugar	Notification no.102/89-CE dated 01.3.1989.
TOBACCO			
5.	2404.13	Cut Tobacco	Tariff rate is NIL
6.	2401.00	Unmanufactured Tobacco	Tariff rate is NIL
7.	2402.10 and 2402.21	Cigars and cheroots without brand name or upto a value of Rs.5 per thousand.	Tariff rate is NIL
8.	2402.22 and 23	Cigars and cheroots where value exceeds Rs.5 per thousand.	Notification no.118/86CE dated 01.03.1986.
9.	2403.21	Cigarillos of tobacco	Notification no.118/86CE dated 01.03.1986.
10.	2404.29	Hookah tobacco not bearing a brand name	Tariff rate is NIL
11	2404.21	Hookah tobacco bearing a brand name.	Notification No.118/86CE dated 01.03.1986.
12.	2404.39	Unbranded Biries made without machines by or on behalf of a manufacturer from one or more factories upto a quantity not exceeding 20 lakh in a financial year.	Notification No.33/82CE dated 28.02.1982 as amended by Notifications 17/86CE dated 10.02.1986 and 35/87-CE dated 01.03.1987.
13.	2404.12	Unbranded Gudaku	Tariff rate is NIL.

ANNEXURE 1 (Cont'd)

List Of Items Exempted Under Additional Excise Duty In Lieu Of Sales Tax (As on 1.3.89)

Sl. No.	Tariff Heading/ Sub-heading number	Description of Exempted goods which exempted.	Notification number under
(1)	(2)	(3)	(4)
14(a)	2404.49	Chewing tobacco not bearing a brand name.	Tariff rate is NIL
(b)	2404.60	Preparations containing snuff or tobacco in any proportions.	Tariff rate is NIL
15.	Chapter 24	Samples of tobacco (all variaties) dated 01.03.1989.	Notification No.102/89CE
TEXTILES			
16.	5003.00	Woven fabrics ofSilk or <u>Silk Waste</u>	Tariff rate is NIL
17.	5106.00	Woven fabrics of wool not subjected to process.	Tariff rate is NIL
18.	5107.10	Woven woolen fabrics, the following, namely: (a) Hair betting (b) Shoddy blankets and blankets from indigenous wool. (c) of width not exceeding 15cms.	Tariff rate is NIL
19.	5107.21	Woolen fabrics, certified as 'Khadi' by Khadi and village industries Commission.	Tariff rate is NIL.
20.	5107.22	Woolen fabrics processed without the aid of power or steam.	Tariff rate is NIL.
21.	5107.23	Handloom Woolen fabrics processed with the aid of Power by a factory owned by a registered handloom cooperative society or any organisation set up or approved by Government for the purpose of development handlooms.	Tariff rate is NIL.
22.	5107.31	Melton cloth (made of shoddy yarn) woven by a factory other than a composite mill and processed by an independent processor.	Tariff rate is NIL.

List Of Items Exempted Under Additional Excise Duty In Lieu Of Sales Tax (As on 1.3.89)

Sl. No.	Tariff Heading/ Sub-heading number	Description of Exempted goods	Notification number under which exempted.
(1)	(2)	(3)	(4)
23.	51.06 & 51.08	Samples of woolen fabrics	Notification no. 102/89 CE dated 01.03.1989 & 192/76 CE dated 19.06.1976 as amended.
24.	51.08	Woolen fabrics of fine or coarse animal hair or of horse hair.	Not included in the Tariff for Add Excise Duty.
25.	5107.24 and 5107.39	Handloom woolen fabrics processed by an independent processor approved by the Government of India on the recommendation of the Development commissioner for Handloom.	Notification no.68/88CE dated 01.03.1988.
26.	5107.24, 32, 39, 41 42, 49, 91 92 and 99	Woven fabrics of wool which either (i) do not contain any worsted yarn or are made of shoddy yarn whose value does not exceed Rs.60 per sq. metre.	Notification No.51/87CE dated 01.03.1987 as amended by Notification No.104/87CE dated 27.03.1987.
27.	51.07	Woolen fabrics subjected to the process of (i) calendering with plain rollers or Blowing (steam raising) if they have not been subjected to any other processing in the same factory.	Notification No344/86 dated 16.06.1986.
28.	51.07 51.12	Defective portions of woolen fabrics given as flag allowance free of cost to the purchaser.	Notifications No.136/73 dated 23.06.1973 as amended by notifications No.79/86CE dated.10.02.86.
29.	5108.00	Mohair fabrics manufactured without the aid of power.	Not included in the tariff for Add. Excise duty.
30.	52.05 and 5802.11	Unprocessed woven cotton fabrics including Terry	Tariff rate is NIL toweling and similar woven fabrics.

ANNEXURE 1 (Cont'd)

List Of Items Exempted Under Additional Excise Duty In Lieu Of Sales Tax (As on 1.3.89)

Sl. No.	Tariff Heading/ Sub-heading number	Description of Exempted goods	Notification number under which exempted.
(1)	(2)	(3)	(4)
31.	5208.22 and 5212.00	Handloom cotton fabrics processed by a factory owned by a registered handloom cooperative society or any organisation set up or approved by Govt. for the purpose of development of handloom.	Tariff rate is NIL.
32.	52.05 to 52.12, 58.02 58.05, 59.03 59.06	Samples of cotton fabrics	Notification No. 258/82CE dated 08.11.1982 as amended by notification nos.98/86CE dated 10.02.86 and 155/87 dated 01.06.87.
33.	52.06 or 52.09	Controlled cloth for wearable purpose	Notification No.70/88CE dated 01.03.1988.
34.	Chapter 52	Processed Khadi and Polyvastra certified as such	Notification No.70/88CE dated 10.02.1986
35.	Chapter 52 and 58.05	Chindis i.e. cut pieces cotton fabrics upto 23cms. in length.	Notification No.47/86 dated 10.02.86
36.	Chapter 52	Cotton fabrics of not more than 15 cms. in width.	Notification No.47/86CE dated 10.02.1986.
37.	5805.11	Embroidery on base fabrics of silk	Notification No.47/86CE dated 10.02.1986
38.	59.03	Chindis coated, impregrated or textile fabrics which are 6 cms. or less in length.	Notification No. 47/86CE dated 10.02.1986.
39.	6001.11	Hosiery of cotton	Notification No.47/86CE dated 10.02.1986.
40.	Chapter 52	Cotton fabrics subjected to the process of screen printing without the aid of power and steam upto an aggregated quantity not exceeding 75 lakh metres.	Notification No.111/87 dated 10.04.1987.

List Of Items Exempted Under Additional Excise Duty In Lieu Of Sales Tax (As on 1.3.89)

Sl. No.	Tariff Heading/ Sub-heading number	Description of Exempted goods	Notification number under which exempted.
(1)	(2)	(3)	(4)
41.	Chapter 52	Cotton fabrics subjected to processing without the aid of power or steam (other than screen printing) upto an aggregate quantity not exceeding 50 lakh sq.metres.	Notification No.111/87 dated 10.04.1987.
42.	Chapter 52, 54,55	Cotton fabrics and man-made fabrics woven in prison and processed outside by an independent processor and returned to the prison.	Notification No. 274/88CE dated 01.11.1988.
43.	Chapter 52	Cotton fabrics subjected to the following processes: 1. Calendering (other than by grovved rollers) 2. Flannelette raising 3. Stentering 4. Damping on grey and bleached sorts. 5. Back-filling on grey and bleached sorts. 6. Singeing 7. Scouring 8. Cropping or butta-cutting 9. Curing or heat setting 10. Padding 11. Expanding 12. Hydro-extraction with the aid of power.	Notification No.253/82CE dated 08.11.1982 as amended by Notification nos.54/85CE dated 17.03.1985, 79/86CE dated 10.02.1986 and 213/88CE dated 15.06.1988.
44.	54.08 55.07 5802.13	Unprocessed woven fabrics from filament yarn and staple fibres including terry toweling and similar woven fabrics.	Tariff rate is NIL.
45.	5410.10 5509.10	Fabrics from filament yarn and staple fibres processed without the use of machines and without power or steam.	Tariff rate is NIL.
46.	5411.11 5510.11	Handloom man-made fabrics processed without the use of power or steam or use of machines.	Tariff rate is NIL.

ANNEXURE 1 (Cont'd)

List Of Items Exempted Under Additional Excise Duty In Lieu Of Sales Tax (As on 1.3.89)

Sl. No.	Tariff Heading/ Sub-heading number	Description of Exempted goods	Notification number under which exempted.
(1)	(2)	(3)	(4)
47.	5411.21 5510.21 5511.21 5512.21	Woven Handloom man-made fabrics processed with the aid of power or steam by a factory owned by a State Government Handloom Development Corporation or an Apex Handloom cooperative society approved in either case in this behalf by govt.of India on the recommendation of the Development Commissioner of Handlooms.	Tariff rate is NIL.
48.	54.09 to 54.12, 55.08 to 55.12, 58.02, 58.05, 59.03 59.06	Samples of man-made fabrics	Notification no.227/82CE dated 11.10.1982 as amended by notification 97/86CE dated 10.02.1986.
49.	5412.10 5412.20 5412.30 5412.40	Man-made fabrics containing cotton polyester fibres and yarn in which polyester is less than 70% processed by a registered cooperative society or any other organisation set up or approved by govt. for development of handlooms.	Notification No. 61/87 CE dated 01.03.1987
50.	Chapters 54,55, 59,60	Chindis of man-made fabrics, man-made fabrics not more than 30.5 cm. in width and book binding cloth if cut or made to bonafide retail sizes not more than 61 cms. in length.	Notification No.109/75CE dated 30.04.1975 as amended by notification no.82/76CE dated 16.3.76, 139/77CE dated 18.06.1977, 155/83CE dated 21.5.1983, 165/83CE dt.28.5.1983, 79/86 CE dt.10.2.1986, 251/86CE dated 11.04.1986 and 317/86 dated 21.5.86.

List Of Items Exempted Under Additional Excise Duty In Lieu Of Sales Tax (As on 1.3.89)

Sl. No.	Tariff Heading/ Sub-heading number	Description of Exempted goods	Notification number under which exempted.
(1)	(2)	(3)	(4)
51.	Chapter 54 or 55	Man-made fabrics subjected to the following processes only. 1. Calendering with plain rollers. 2. Singeing 3. Padding 4. Back filling 5. Cropping 6. Hydro extraction	Notification No. 297/79 CE dated 24.11.1979 as amended by notification no.79/86 CE dated 10.02.86.
52.	5802.90	Terry toweling of material other than cotton or man-made fibre/yarn.	Tariff rates is NIL.
53.	5806.10	Narrow woven fabrics of silk wool, cotton or other man-made materials.	Tariff rates is NIL
54.	5903.11 5903.21	Cotton or textile fabrics of man-made materials coated or laminated with preparations of L.D.P.E.	Tariff rates is NIL
55.	5903.29 5903.29	Damaged or sub-standard impregnated or coated textile fabrics not exceeding 1.3 sq. metres and Chindis (upto 5% of total clearance).	Notification No-274/86CE dated 24.04.86 as amended by notifiction no.400/86CE dated 26.08.89 and no.57.89 CE dated 01.03.1989.
56.	59.05	Rubberised textile fabrics weighing more than 1500 gms. per sq.metre and in which rubber predominates by weight.	Notification No.5/87CE dated 15.01.1987.
57.	5905.20	Fents, rags and chindis of rubberised textile fabrics (upto 5% of total clearance)	Notification No.61/89CE dated 01.03.1989.
58.	All goods	Samples	Different Notification
59.	6001.90	All knitted or crocheted fabrics without aid of power or steam, Woollen Hosiery.	Not included in the tariff for additional Excise Duty.

ANNEXURE 1 (Cont'd)

List Of Items Exempted Under Additional Excise Duty In Lieu Of Sales Tax (As on 1.3.89)

Sl. No.	Tariff Heading/ Sub-heading number	Description of Exempted goods	Notification number under which exempted.
(1)	(2)	(3)	(4)
60.	5512.21	Man-made handloom fabrics containing polyester fibre between 40% and 70% by weight processed with the aid of power by a factory owned by a State govt. Handloom. Development Corporation Apex. Handloom cooperative society approved in either case, in this behalf by Govt. of India on the recommendation of Development commissioner for Handlooms.	Tariff rates is NIL.

Note: i. Articles classifiable in chapters 50 to 55 or 58.06 or 59.02 and of a mixture of two or more textile materials are to be classified as if consisting wholly of that one textile material which predominates by weight over any other single textile material(for further details section note to section XI of the CE tariff may be seen).

ii. Besides, the above, goods manufactured in central Government ordinance factories for the use of armed forces, goods donated to defense personnel etc. and some goods manufactured by specified institutions for specified purpose are also exempt from Additional Excise Duties.

ANNEXURE 2

Changes in AEDILST Made in Respect of Unmanufactured Tobacco And Tobacco Products

As a measure of rationalisation and simplification and with a view to eliminating excise control from tobacco growers, curers, small dealers and warehouse licensees, the excise duty was withdrawn from unmanufactured tobacco in the 1980 Budget.

The shortfall in revenue was proposed to be made good partially by revising the existing rates of duties on manufactured tobacco products. The rates of duty on cigarettes have been stepped up as a revenue measure as well.

Some relief is being provided for specific period in respect of cigarettes, hand made beedis, dutiable chewing tobacco and snuff, when produced out of pre-budget duty paid unmanufactured tobacco.

The following are the existing and proposed rates:

1	2	3	4	5	6	7
						(Rs.lakhs)
		4II(2)	Cigarettes		B-270%	300% + Rs.20/-per thousand.
					A-100%	100% + Rs.10/- per thousan
		Effective Rates				
		Existing				
		Cigarettes of which the value per one thousand	B	Column 5	A	
	i)	does not exceed Rs.15	115%		35%	
	ii)	exceeds Rs.15 but does not exceed Rs.20	115% +3% for every additional rupee part thereof in excess of Rs.15/- per one thousand.		35%+1% for every additional rupee or part thereof in excess of Rs.15 per one thousand.	
	iii)	exceeds Rs.20	130%+5% for every addititional rupee or part thereof in excess of Rs.20/- per one thousand.		40%+3% for every additional rupee or part thereof in excess of Rs. 20/- per one thousand.	
		Proposed				
		Cigarettes of which the value per one thousand			Column 6 B + A	
	i)	does not exceed Rs.10/-			150% plus Rs.21 per one thousand.	
	ii)	exceeds Rs.10 but does not exceed Rs.35			150% plus 10% for every additional rupee or part there of in excess of a value of Rs.10 per one thousand. plus Rs.21 per one thousand.	
		iii) exceeds Rs.35			400% plus Rs.21 per one thousand	

Note: The amount of duty so levied shall be apportioned in the ratio of 76:24 between basic duty and additional duty.

1	2	3	4	5	6		7
							(Rs.lakhs
	4II(3)						
	(i)	Machine made biris		per thousand	B Rs.4.60	Rs.6.00	
				" A Re.1.00 Rs.2.00			
	(ii)	Other biris		" B Rs.1.60 Rs.3.00			
				" A Re.0.40 Re.1.00			
		<u>Effective rates</u>					
		Sub-item(ii) above					
	(a)	Produced by a manufacturer who does not sell any biris under a brand name.				B + A	
	(1)	first 60 lakh biris in a year		Per thousand	E	E	
	(2)	biris in excess of 60 lakhs in a year		"	E	Rs.1.60	
	(b)	Produced by other manufacturers					
	(1)	branded biris		"	BRs.1.60 ARe.0.40	Rs.3.60	
	(2) unbranded biris			"	E	Rs.3.60	

Note: The amount of duty so levied shall be apportioned in the ratio of 75:25 between basic duty and additional duty.

4II(4)	Smoking mixtures			B220%	300%	
				A100%	NC	
		<u>EFFECTIVE RATES</u>			B + A	
				B 170%	300%	
					A 50%	

Note: The amount of duty so levied shall be apportioned in the ratio of 75:25 between basic duty and additional duty.

1	2	3	4	5	6	7
						(Rs.lakhs)
4II(5)		Chewing tobacco			B 10% A -	30% 10%
(6)		Snuff		Kg. B Rs.2.50 A	 -	Rs.6.00 Rs.2.00
(7)		Hookah tobacco		B A	- -	15% 5%
		<u>Effective Rates</u>				
(5)		Chewing tobacco				
(a)		Produced by a manufacturer who does not sell any chewing tobacco under a brand name.			E	E
(b)		Produced by other manufacturers.				
(i)		branded chewing tobacco of which the value -				
						<u>B + A</u>
(1)		does not exceed Rs.10 per kg.			B 5% A -	5%
(2)		exceeds Rs.10/- per kg.			B -10% A -	25%
(ii)		unbranded chewing tobacco of which the value -				
						<u>B + A</u>
(1)		does not exceed Rs.10/- per kg.			E	15%
(2)		exceeds Rs.10/- per kg.			E	25%
(6)		<u>Snuff</u>				<u>B + A</u>
(i)		of which the value kg. does not exceed Rs.10/- per kg.			B Re.0.75 A -	2.50
(ii)		of which the value kg. exceeds Rs.10/- per kg.			B Rs.2.00 A -	6.00

Note: The amounts of duty so levied on chewing tobacco and snuff shall be apportioned in the ratio of 75:25 between ba: duty and additional duty.

(7) Hookah tobacco

It is proposed to exempt unbranded hookah tobacco from excise duty. [Sl. No. (vii) of Part - I and Sl. No. (i) of Part - II of the Third Schedule and Sl. No. (i) & (ii) of the Fourth Schedule]

Budget 1985 - 86

It was proposed to raise the total duty on biris from Rs. 3.74 to Rs. 4 per thousand.

Budget 1986 - 87

It was proposed to do away with the excise duty presently levied on brand cigars, Cheroots and cigarettes. Excise duty on branded Hukkah tobacco was also abolished.

Budget 1987-88

Excise duty on snuff and chewing tobacco or products containing chewing tobacco is being imposed at the rate of 25%.

ANNEXURE 3

Different Estimates of Output for Items Exempted under AEDILST

Tariff Heading/ Sub-Heading No.	Description	Unit	1984-85	1985-86	1986-87	1987-88	1988-89	Average of these years	Source
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1701.20	Khandsari Sugar	Lakh Qtls Rs Lakhs			.81 369.05	.49 228.93		.65 298.99 (1987-88)	Annual Report (1987-88) KVIC
1702.11	Polmyra Sugar	Qtls. Rs.Lakhs.				Neg .48			TRU
2404.13	Cut Tobacco	Kgs.000 Rs.Lakhs				22167 105.75		22167 105.75 (1987-88)	TRU
2401.00	Unmanufactured Tobacco	Kgs.000 Rs.Lakhs				577 65.76		577 65.76 (1987-88)	TRU(1987-88)
		Kgs.000 Rs.Lakhs	58799 12819.77	57560.6 15114.97	39751.6 7798.54	36814.9 8964.83		52037.06 11911.09 (1986-87)	Indian Tobacco Journal (Oct-Dec,'88)
2402.10 2402.21	Cigar and Cheroots without brand name or upto a value of Rs.5 per thousand	No.000 Rs.Lakhs	*3054685 53934	731828 37408	752 .036	1036 .04		3054685 53934 (1984-85)	TRU
2402.22 &.23	Cigars and Cheroots where value exceeds Rs.5 per thousand	No.000 Rs.Lakhs	*40900 30.24	2517 .17 765	(ASI Summary 1985-86 (Factory Sector)			40900 30.24 (1984-85)	TRU
2402.21	Cigarillos of tobacco	No.000				19			TRU
2404.29 .21	Hookah tobacco not bearing a brand	Kg.000 Rs.Lakhs. name	514 15.17	15720 534.33	346 .07			15720 534.33 (1985-86)	TRU
2404.21	Hookah tobacco bearing a brand name.	Rs.Lakhs.			18666.25	5813.48	3987.5	9489.08	Collecto-rate (1988-89)

ANNEXURE 3(Contd'

Different Estimates of Output for Items Exempted under AEDILST

Tariff Heading/ Sub-Heading No.	Description	Unit	1984-85	1985-86	1986-87	1987-88	1988-89	Average of these years	Source
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
2404.39	Unbranded Biris	No.000	11968	*366247		17339			
	made without	Rs.lakhs	18561	8707207		340.05		8707207	TRU
	machines by or							(1985-86)	
	on behalf of a								
	manufacturer								
	from one or more								
	factories upto								
	a quantity not	Rs.lakhs			73585.42	84401.60	39470.45	65819.16	Collectorate
	exceeding 20							(1986-89)	
	lakhs in a								
	financial yr.								
2404.12	Unbranded Gudaku	Rs. Lakhs			103.41	132.7	114.95	117.02	Collectorate
2404.49	Chewing tobacco	Kg.000	777		*4383	2750		(1986-89)	
	not bearing a	Rs.lakhs	.35	2112(ASI	72541	132		72541	
	brand name.			(Summary 1985-				(1985-86)	
				86 Factory Sector)					
2404.60	Preparations conta-								
	ining snuff of								
	tobacco in any								
	preparations	Rs.Lakhs			85.66	100.80	56.40	80.95	Collectorate
								(1986-89)	
5003.00	Woven silk	Lakh sq.mtr	1138	1179	1325	1412			Central
		Rs. Lakhs	71786	84271	93783	89914		83280	Silk Board (1988)
	Silk waste	Tonnes	2660	2679	3022	3286		(1984-87)	Silk in India
		Rs. lakhs	1261.37	1212.78	1326.66	1544.42		1251.94	Statistical Bienn
5107.10	Woven woollen fabr-								
	ics, the following								
	namely,								
	(a) Hair betting	Mtrs.	236	14		3100Kg.		47.32	TRU
	(b) Shoddy blankets	Rs.Lakhs	85.73	8.91		708.23		(1984-86)	
	and blankets from								
	indigenous wool								
5407.21	Woollen fabrics	Million Sq.	103.98	104.94	113.13	115.72			Statistical
	certified as Khadi	mtrs.							Statement
	by Khadi and Vill-								Annual
	age Industries	Rs.Lakhs	15762	19501	21806	22751		19955	Report(1988
	Commission							(1984-88)	KVIC(Khadi&

ANNEXURE 3(Contd'

Different Estimates of Output for Items Exempted under AEDILST

Tariff Heading/ Sub-Heading No.	Description	Unit	1984-85	1985-86	1986-87	1987-88	1988-89	Average of these years	Source
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
52	Processed Khadi and polyester certified as such	Rs.lakhs		1508(ASI Summary 1985-86 Factory Sector)					Village Ind -ustries Commission.
		Rs.Lakhs	217	312	593	1158		570 (1984-88)	
5107.31	Melton cloth	Mtrs.000	5850	45		165			TRU
		Rs.000	1899.68	1.93		17.98		950.81 (1984-86)	
5107.24, 32, 39, 42,49,91 92 & 99	Woven fabrics of wool which either (i) don't contain any worsted yarn or. are made of shoddy yarn whose value doesn't exceed Rs.60 per sq.metre.	Kg.000				76			TRU
		Rs.Lakhs				181.36		181.36 (1987-88)	
52.05 & 5802.11	Unprocessed woollen fabrics including terry toweling and similar woollen fabrics	Mtrs.000	13	1480200	968415	1520360			TRU
		Rs.Lakhs	.14	8.33	10770.24	12880.45		7886.34 (1985-88)	
		Rs.Lakhs			4319.7	5110	1257	3562.3 (1985-88)	Collecto-rate.
52.05 to 52.12 58.02 58.05 59.03,59.06	Samples of cotton fabrics and man-made fabrics	Rs.Lakhs		.61	.57	.56		.58 (1985-88)	ATIRA
		Rs.Lakhs			41651	41114	38522	40429 (1986-89)	Collecto-rate.
52.06 to 52.09	Controlled Cloth for wearable purpose.	Mtrs.000			84304	36880			TRU
		Rs.Lakhs			1626.81	1265.24		1446.025 (1986-88)	
		Rs.			15450751.8	18691177.45	3828966.28	12656965.18	Collecto rate.
6001.11	Hosiery of cotton	Mtrs.000			328	1280		804	TRU
		Rs.Lakh			.48	5.13		2.81 (1986-88)	

ANNEXURE 3(Contd'

Different Estimates of Output for Items Exempted under AEDILST

Tariff Heading/ Sub-Heading No.	Description	Unit	1984-85	1985-86	1986-87	1987-88	1988-89	Average of these years	Source
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
52	Cotton fabrics subjected to the following processes	Mtrs.000 Rs.lakhs			482 410.10	7951 688.78		4216.5 549.44 (1986-88)	TRU (1986,1987)
		Rs.lakhs			296.19	503.13	1358.02	719.11 (1986-89)	Collectorate
54.08, 55.07, 5802.13	Unprocessed woven fabrics from fila-ment yarn and staple fibres including terring toweling and similar woven	Mtrs.000			57200	72757			TRU(1986-88) 1987-88
		Rs.lakhs			1319	106034		1189.67 (1986-88)	
		Rs.lakhs fabrics.			1858.10	4135.77	313.99	2102.62 (1986-89)	Collectorate
55.00	Man made fabrics subjected to the following proce-sses only: 1) Calendering with plain rollers 2) Singering 3) Padding 4) Back filling 5) Crappling 6) Hydro extraction	Mtrs.000 Rs.lakhs			1623 25.70	1105 49.02		37.36 (1986-88)	TRU
5806.10	Narrow woven fabrics of silk wool, cotton or other man-made materials.	Mtrs.000 Rs.lakhs			4118 78.49	152 44.62 (1986-88)		61.55	TRU
5903.11 5903.21	Cotton or textile fabrics of man-made materials coated or laminated with preparations of LDPE	Mtrs.000 Rs.lakhs	29 4.44		6668 500.59	1039 83.24		294.14 (1986-88)	TRU

Different Estimates of Output for Items Exempted under AEDILST

Tariff Heading/ Sub-Heading No.	Description	Unit	1984-85	1985-86	1986-87	1987-88	1988-89	Average of these years	Source
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
59.05	Rubberised textile fabrics weighing more than 1500gms per sq. metre and in which rubber predominated by weight.	Mtrs.000			1596	893			TRU
		Rs.lakhs			576.46	909.85		743.16 (1986-88)	
5802.90	Terry toweling of material other than cotton or man-made fibre/yarn	Mtrs.000			8494	13965			
		Rs.lakhs			620.50	333.10		476.80 (1986-88)	
6001.90	All knitted or crocheted fabrics without aid of power or steam woollen	Mtrs.000			15797	20531			TRU
		Rs.lakhs hosiery.			124641	174912		149776.5 (1986-88)	
	Chindies*	Mtrs.		21331200	19826400	18462440			
		Rs.lakhs		2436.62	2288.48	2277.03		2334.04 (1985-88)	ATIRA
	Total Handloom Sector.	Mtrs.000	338 kg.		164700	181882			
		Rs.lakhs	1.02		79262	48589.04		63925.52 (1986-88)	TRU
		Mtrs.000			2966876	3350883			
		Rs.lakhs			33773.55	376863.44			

Notes: KVIC = Khadi and Village Industries Commission
TRU = Tax Research Unit, Central Board of Excise and Customs, Ministry of Finance.
ATIRA = Ahmedabad Textile Research Association - Ahmedabad.
Collectorate = Information From Central Excise and Customs Collectorate, Ahmedabad
ASI Summary 1985-86 = Annual Survey Of Industries, 1985-86, (Factory Sector)

* = For details of tariff items covered under this head refer to Annexure II.

* = In these years AEDILST was levied.

ANNEXURE 4

Estimates of Clearances of Chindis from Different Sources

Tariff Heading Sub heading No.	Description	Unit	1985-86	1986-87	1987-88	1988-89	Average	Source
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
5258.05	Chindies i.e. cut piece cotton fabrics upto 23cms. in length.							
52	Cotton fabrics of not more than 15 cms. in width.							
59.03	Chindis, coated, impregnated or textile fabrics which are 6 cms. or less in length.	Mtrs. Rs.Lakhs	21331200 2436.62	19862400 2288.47	18462440 2277.03		 2334.04	ATIRA@
Chapter 54, 55,59 & 60	Chindis of man-made fabrics,man-made fabrics, man-made fabrics not more than 30.5 cms. in width and cloth if cut or made to bonafide retail size not more than 61 cms. in length.	Rs.Lakhs		315.35	103.74	107.75	175.61	Collectorate$
5903.19 5903.29	Damaged or substandard impregnated or coated textile fabrics not exceeding 1.3 sq.mtrs. and chindis (upto 5% of total clearance.)							
5905.20	Fents, rags, chindis of rubberised textile fabrics(upto 5% of total clearance.)							

Notes:
@ First Survey Report Period - October 1985(Ahmedabad Textile Industry's Research Association-Ahmedabad).
$ Information from Central Excise and Customs Collectorate, Ahmedabad.

ANNEXURE 5

List of Items for Which No Statistical Information is Available

S.No.	Tariff Heading/ Sub-Heading Number.	Description
3.	1701.10	Sugar in relation to the manufacture of which no process is ordinarily carried on with the aid of power.
4.	17.01 and 17.02	Samples of Sugar
[illegible]	Chapter 24	Samples of tobacco (All varieties)
	51.06 and 51.08	Samples of woollen fabrics
	51.07	Woollen fabrics subjected to the process of (i) Calendering with plain rollers or blazing (steam rising)if they have not been subjected to any other processing in the same factory.
	5108.00	Mohair fabrics manufactured without the aid of power.
	5805.11	Embroidery on base fabrics of silk.
	Chapter 52	Cotton fabrics subjected to processing without the aid of power or steam (other than screen printing.)upto an aggregate quantity not exceeding 50 lakh sq.mtrs.
42.	Chapters 52,54,55	Cotton fabrics and man-made fabrics woven in prison and processed outside by an independent processor and returned to the prison.