

## **PC loads capacity norm to fix excise evasion glitch**

*HONESTY IS INDEED THE BEST POLICY: FM FINDS WAYS TO HELP NEEDY & THOSE PLAYING BY THE BOOK*

**Deepshikha Sikarwar NEW DELHI**

**March 4 2008**

WHILE the industry may be celebrating the reduction in median excise duty rate from 16% to 14%, the return of a small, seemingly innocuous, section has the potential to play party pooper. This provision empowers the government to charge excise duty on the basis of capacity of production. The Finance Bill 2008 proposes to insert Section 3A in the Central Excise Act, 1944, which empowers the government to charge excise duty on the basis of production capacity in respect of notified goods, and to notify the procedure for the same. This will allow the government to rejig the levy of excise during the year and impose duty vis-à-vis the quantum of production. The government—in December 2007—brought pan masala and gutkha under the compound levy scheme, providing for payment of duty on the basis of the number of packing machines installed on the factory premises of a manufacturer. On the face of it, the proposal looks harmless but it has increased the scope of inspection by excise department officials, as witnessed by the pan masala and gutkha sectors. Units in these sectors face inspection of each and every line, three to four times a month, industry sources said.

However, this is a whip the government is likely to use only on sectors evading duty on a massive scale. The pan masala and gutkha sector drew the department's ire after reports indicated that it had a turnover of close to Rs 25,000 crore, while excise collection from the sector remained a meagre Rs 650 crore. With the provision to levy excise on the basis of capacity now becoming a part of the Finance Bill, the government has shielded itself from any potential litigation that may arise. Despite the ongoing economic boom, revenues from excise had grown just 5.1% till December 2007.

### **GOING GETS TOUGHER**

**The proposed move will empower the government to charge excise duty on the basis of capacity of production in respect of notified goods**

**This will allow the govt to rejig levy of excise during the year and impose duty vis-à-vis the quantum of production**

**It is likely to be used only on sectors evading duty on a massive scale**