CHAPTER VII

SUMMARY OF FINDINGS, SUGGESTIONS
AND CONCLUSION
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INTRODUCTION

A modern welfare State is required to do many services to its citizens. The State has to protect the life and properties of the public. It has to ensure good living to its subjects. To do this services, a State requires funds. Such funds are collected through taxes, fees, fines, penalties etc. The administration of funds of the government, in a democratic country is not only significant from the point of view of economics but also for the tax payers (i.e) public. Of the various types of taxes, direct taxes and indirect taxes play a vital role in shaping the economy. They are levied by the Central Government. While the indirect taxes are excise duty, customs duty and sales tax, the direct taxes are income tax and corporation tax.

The indirect taxes are indispensable as they constitute nearly 70% of union revenue. Excise duty, a commodity taxation is levied on indigenously produced commodities. This is levied on all commodities (classified into 96 chapters) manufactured in India. The excise duties are first collected from the manufacturers. The manufacturers pass on the incidence of taxation to the public by including the duty portion in the selling price. Hence, excise duty is a tax paid by the public in an indirect manner. By this, all citizens are compelled to take part in the financial administration of the country. The growth in excise revenue signify various factors such as (a) growth in production, industrialisation (b) growth in income (c) growth in the standard of living (d) inventions
leading to manufacture of new products. Thus, excise duty reflects the standard of living and purchasing power of the public.

Excise duties are levied at each stage of production. When a product passes through various processes, the output of each process is taxed, ultimately leading to tax on tax. In order to mitigate the bad-effect of this tax on tax (cascading effect), in line with Value Added Tax in foreign countries, Modified Value Added Tax Scheme (MODVAT) was introduced with effect from April 1, 1986. With the help of the scheme, the manufacturers are allowed to deduct the input duty from the duty liability of their final product. This scheme is beneficial in the sense, the total duty burden of a manufacturer is reduced. It is easy to clear the final output without cash crisis. Ultimately, the cost of production decreases leading to decrease in the selling price. But the scheme has another side too. Though there is growth in revenue, it is not on par with growth in MODVAT credit amount. Many cases are pending in various judicial offices with regard to irregular utilisation of MODVAT credit and duty evasion. Hence, this study is warranted to examine the MODVAT scheme with the following objectives:

1. To examine the MODVAT scheme, its benefits and drawbacks and to find out the dominant factor that influences the scheme.

2. To study the performance of divisions of in Madurai Commissionerate.

3. To know the extent of utilisation of credit in different divisions of Madurai Commissionerate to detect revenue leakage.
4. To study the reasons as to why no public interest litigation has been filed for not passing the benefit of the scheme to the consumers.

5. To analyse the impact of MODVAT scheme on different industries (i.e) industry-wise analysis.

6. To find out the real beneficiaries of the scheme.

7. To identify the varied difficulties faced by industries in utilising MODVAT credit as well as difficulties faced by the authorities in administration of the scheme and to offer concrete suggestions for the betterment of the scheme.

In order to fulfill the above objectives, census survey and sample survey were used for collection of data. The data relating to excise revenue, amount of input credit, amount of capital goods credit of the nine divisions were collected from the computerised records of Madurai Commissionerate. With this data, the division-wise analysis of performance, utilisation of MODVAT credit have been made.

In order to make an analysis of the scheme from the point of view of manufacturers, an interview schedule was prepared. The scope of the study covers a period of five years. Though the scheme has been in operation from 1-4-1986, many concessions and MODVAT credit on capital goods were given only from 1.4.94. Hence, the study covers all those industrial units paying excise duty and availing themselves of MODVAT credit for a continuous period of five years. The study has not considered industries yielding meagre revenue such as paper products, sugar and labour intensive industries such as fireworks, matchworks and
small scale units operating within the clearance of Rs 100 lakhs. This was done from the computerised records of Madurai Commissionerate after getting the permission of the Commissioner of Central Excise. The number of such industrial units considered for the study came to 220. The interview schedules were collected personally by the researcher.

With the intention of studying the procedural nuances of MODVAT scheme, another set of interview schedule was administered to excise authorities such as Range Superintendents and Inspectors, who have direct contact with the manufacturer-assessees. There are eighty one range offices under the control of Madurai Commissionerate as on 31.03.1999 of which fifty range offices were selected at random.

FINDINGS OF THE STUDY

The research findings recorded at various places in the preceding chapters of the present research report have been consolidated in this final chapter. A capsule of findings of the study is furnished in the following paragraphs:

(i) Central Excise - An overview

To understand the subject Modified value Added Tax, it is necessary to know the fundamental Act namely, the Central Excise Act, 1944. The present research makes an elaborate study of the Central Excise Act. Excise duty is levied on goods manufactured in India. For a commodity to be levied with excise duty, (a) it should be goods, (b) the goods must be excisable (c) the goods must be manufactured or produced (d) such manufacture must be in India. Unless these conditions are
fulfilled, central excise duty cannot be levied. For the levy of excise duty, many bases are used like :

(a) specific duty, for example duty per ton, per dozen on matches, cigarette etc.

(b) duty as a percentage of Tariff Value fixed under Section 3(2)

(c) duty based on Maximum Retail Price after allowing, deductions under Section 4(A) Central Excise Act for example, radio sets, cosmetics, aerated water.

(d) Duty as percentage based on Assessable Value under Section 4 (i.e) Ad valorem Duty. It is on the assessable value which is normal price for which the goods are sold. This price is the price at which goods are ordinarily sold in the wholesale trade. This price must be the sole consideration of such sales.

Where manufactured goods are used for further production in the same factory, the valuation of such goods is made as per Rule 6(b).

Excise is not levied on manufacturing cost or profit. It is on the normal price of goods. To attract excise duty, the goods must be movable and marketable, capable of being bought and sold. Such goods must be mentioned in the Central Excise Tariff Act 1985. Goods like flower, vegetable, rice are not mentioned in Central Excise Tariff Act and they are not excisable, though they are goods. The levy is on goods manufactured. If there is no manufacture, no duty is levied. The process should result in emergence of a new substance having a distinct name, character and use. The original identity of the product must be lost. The duty liability is fastened on manufacturer. A manufacturer is a person
who employs hired labour in the production or manufacture of excisable goods or a person who engages in the production or manufacture on his own account.

To assess the duty liability the goods must be properly identified. A wrong identification may lead to unnecessary duty burden on manufacturers or loss of revenue to the government. The Central Excise Tariff Act classifies the goods under 96 chapters with specific codes assigned to them. The Central Excise Tariff Act is based on Industrial convention of Harmonised System of Nomenclature (HSN).

The duty liability of a product is assessed after interpreting various laws related to that product, classification of goods and exemption notifications.

All manufacturing units (with a clearance of output of more than Rs.50 lakhs), first stage dealers, second stage dealers (authorised to issue MODVATABLE invoice) are required to be registered with Central Excise department. Each registered person is given an assessee code.

The assesses are required to submit particulars as to value of clearance, invoices and returns. They have to clear their output only under Invoice. This invoice is the basic document, for passing on The MODVAT credit facility, to the buyer of such output.

MODIFIED VALUE ADDED TAX

The rules for enjoying the benefits of MODVAT scheme are contained in Rule 57A to 57U of Central Excise Act. Modified Value Tax
is different from Value Added Tax, in the sense that under VAT only the value addition is taxed. But in MODVAT credit, first the duty liability on final product is assessed including the input duty then credit is given to input duty for discharging the duty liability.

Sections 57A-57J regulate the process of availing of MODVAT credit and utilising the same in discharge of duty liability. The credit is available only on specified duty such as Basic Excise Duty, Additional Excise Duty on Textiles and Textile Articles, Additional Duties of Excise (Goods of Special Importance, Additional Duty of Customs. But such additional duty paid on input (MODVAT credit) can be only for discharging the additional duty liability on final products. The MODVAT credit is available on inputs used in manufacture of paints, inputs used as fuel, inputs used for generation of electricity, packing material, accessories and lubricating oil greases.

MODVAT credit is not permissible if final products are exempted from duty or subject to nil rate of duty. Where goods are exported or sent to Software Technology Park or Free Trade Zone, United Nations Organisation, then the duty credit on inputs used for production of such goods is available to be used in clearance of other final products.

Where an industrial unit produces both dutiable and non-dutiable final products from the same raw material and where it does not keep separate records for each category, the industrial unit has to pay 8% of selling price of the exempted goods at the time of clearance from the factory.
Even if waste emerges in the process, the duty credit contained in the waste is allowed to be used for clearing other final products.

The duty portion contained in inputs of intermediate goods is available for clearing the final product though such intermediate goods are exempted from duty.

Another important Rule 57(E) provides for flexibility towards availing oneself of MODVAT credit, giving additional credit where more duty liability is fixed on the predecessor, provided the successor has paid for it. Section 11(B) is the only legislation which cares for the public. This section talks about doctrine of Unjust Enrichment by refusing refund of MODVAT credit in cash to assessee.

Rule 57(F) deals with removal of input after payment of duty for home consumption or for test, repair, job work after debiting 10% of value of such inputs. This Rule ensures receipt of goods back into the factory for use in production.

Rule 57G describes procedures to be observed by manufacturers like filing of declaration, obtaining dated acknowledgement, availing of duty only under MODVATABLE invoice, time limit for taking credit, defacing of invoice and the like.

Rule 57H is about transitional provision in MODVAT scheme for switching over from one scheme to another. The rule facilitates the transfer of unutilised credit at the time of opting for MODVAT credit from Proforma credit.
Rule 57-I provides for recovery of wrong credit availed by assesses. This rules makes the assessee to pay interest at the rate of 20% in addition to duty amount determined for offences like wilful misstatement, collusion or suppression of fact.

RULE 57J makes the input duty credit on intermediate goods eligible to be used for discharging the final duty liability, though the intermediates goods are exempted from duty or subject to nil rate of duty.

MODVAT on Capital Goods

To follow the consumption type of VAT, the credit of capital goods employed in manufacturing process is available for discharging the duty liability of the finished products. The Act has given an elaborate list of eligible and ineligible capital goods for MODVAT purposes.

Rules 57Q -57U discuss the various rules and procedures to be followed for enjoying this credit. Small Scale industries can take credit of capital goods once they cross the clearance limit of Rs.100 lakhs. The capital goods must be installed and used. Even where the capital goods are hired or purchased on installment basis, credit can be taken subject to certain conditions namely maintenance of registers RG23C Part I and II. The capital goods should not be exclusively used for manufacturing exempted goods or goods chargeable nil rate of duty.

Except for certain peculiar conditions for taking MODVAT credit on capital goods, the procedure is same as that of taking credit of inputs.
Evaluation of MODVAT Scheme

The sub-heading ‘Evaluation of MODVAT scheme’ discusses the pros and cons of MODVAT scheme. The irregularities inherent in the scheme have also been analysed. The study discovered that the duty evasion has gone up from Rs.277 crores in 1985-86 to Rs.1033.46 crores in 1996-97, in a period of 12 years. In Madurai Commissionerate, there is duty evasion of 4.25 crores in 1997-98, with peak of Rs.15.76 crores in 1995-96. The increase in duty evasion may be attributed to the flaws in MODVAT credit scheme.

Deficiencies of MODVAT Scheme

1. MODVAT credit has just been thrust upon without making adequate exercise unlike in foreign countries.

2. Due to the facility of tax credit scheme, it was expected that more industries will come forward to pay tax. But this aim is only partially fulfilled.

3. In SSI sector there is suppression of output.

4. Duty evasion is increasing at a galloping speed.

5. There is irregular use of MODVAT credit.

6. There is cascading effect even after MODVAT concession.

7. The system is found complicated on account of too many proforma, and innumerable procedural formalities.

8. The Act is not at all transparent.
9. Every rule is a matter of dispute, giving way to many interpretations.

10. The excise law has no pragmatic approach.

11. The Government machinery is not completely equipped to curb manipulative cases and corruption.

MODVAT to VAT

This chapter reenforces the necessity of true VAT. The various present problems are to be settled and set-right before introducing VAT. The Governments must come to a common agenda to have VAT. The tax credit system must be converted into real VAT.

SMALL SCALE INDUSTRIES

Small Scale Industries are indispensable for the growth of economy. They play a significant role in employment generation, exports etc. But the small scale industries feel the hardship of competing with multinational companies and other big industries. Many reforms have been made in the excise front like concessional duty rate with MODVAT credit facility. Inspite of concessions the small scale sector continues to suffer even today. This is due to the inadequacy of funds. Excise concession is not the adequate stimulant for their growth. They must be given timely financial assistance. The banks must be instructed to do that. A timely rehabilitation package is necessary to revive viable sick units. Nearly 18,861 units all over the country are identified as viable units with the loan outstanding of Rs.455.60 crores on 31.3.98.
Though the number of SSI units has increased, the excise revenue generated by them is very poor. In Madurai Commissionerate, 1190 units, registered with Excise Department have contributed only Rs.17.4 crores in 1998-1999. The reasons are many industries have been closed due to the onslaught of recession, inability to face competition and de-reservation of certain commodities. The small scale industries so far have been nurtured with protection of Government. Now left to themselves to face competition and inadequacy of money, they are in utter financial crisis. Apart from financial assistance, it is necessary to revitalise the labour employed in such industries. Much impetus must be given to modernisation and upgradation of technology.

MODVAT IN SELECTED INDUSTRIES

This gives an elaborate introduction of industries chosen for this study, namely, Chemical, Rubber, Plastic, Engineering Goods, Textiles and Cement. These industries (except plastic) are old. They are major industries and back bone of Indian economy. Hence, the industrial structure is examined at national level. Their contribution of Union Excise duties are also examined at the national level and at the micro level (Madurai Commissionerate). Of the six industries, textile industries are the oldest one; Madurai has been identified as textile city. The cement produced by industries located in this area compete with international brands. The Plastic industries offer employment opportunity as it is a growing industry. Chemicals are indispensable. Without them, no other industry can thrive. Engineering goods industry with new emerging technology gives employment to lakhs of people. Hence all these industries are essential from the point of view of employment generation,
too. Moreover, these industries generate more excise revenue. So, it is highly appropriate to study about these industries.

**ANALYSIS OF SURVEY DATA**

The analysis of data collected from the computerised records of Madurai Commissionerate, manufacturer assessesees and excise authorities is made with the help of SPSS package, version 6.0. The analysis and findings are presented in the succeeding pages.

**FINDINGS FROM HYPOTHESES**

Many hypotheses were formulated to compare the performance of different divisions of Madurai Commissionerate. The findings with the help of hypotheses are furnished below:

1. Regression co-efficient in the population is zero. This hypothesis was framed to test the linear nature of relationship between Excise Revenue and MODVAT credit of Madurai Commissionerate.

    The F ratio denotes the fact that F ratio is highly significant (i.e) regression co-efficient in the population cannot be zero. With this analysis, it has been estimated that the excise revenue of Madurai Commissionerate would be Rs.530.05 crores for the year 1999-2000.

2. The linear regression has also been fitted for MODVAT credit utilisation during the last five years.

    The null hypothesis "the regression co-efficient in the population is zero", was tested with F test.
The F ratio was greater than 1% F-Table value. It is concluded that the utilisation of MODVAT credit has been increasing over the years and it has been estimated that the MODVAT credit utilisation would be Rs.428.75 crores in the year 1999-2000.

3. The linear regression has been fitted to the data of Excise Revenue and MODVAT credit of all industries in India. The regression analysis was applied.

The null hypothesis (i.e) the regression coefficient in the population is zero, which has been tested with F-test.

The mean and standard deviation of India with regard to MODVAT credit was calculated. The F-ratio was greater than 1% F-Table value.

MODVAT credit has been linearly increasing over the years. The MODVAT credit has been estimated at Rs.44082 crores on all India Basis.

4. The linear model has also fitted to the excise revenue from all industries in India. The mean and standard deviation were Rs.45,465.78 crores and Rs.5447.30443 crores. The coefficient was 0.987803.

The F-test was applied. The calculated F ratio was greater than table value at 1% level of significance and the null hypothesis was rejected. It has been therefore concluded that the excise revenue collection from all industries of India would be Rs.56,880.33 crores for the year 1999-2000.
The analysis of PLA revenue, Input credit, Capital Goods credit utilised were made to detect revenue leakage. Unless these details are studies over a period of years, the leakage of revenue cannot be proved.

Hence, the analysis of excise revenue, utilisation of input credit and capital goods credit was made to detect revenue leakage in the various divisions of Madurai Commissionerate.

Excise duty liability depends on the assessable value of commodities and rates of duty.

1. Duty liability of each division for different years was converted into percentages with respect to assessable value.

The overall mean and index were calculated.

The yearly index registered an increase except for the year 1995-1996. Rationalisation of duty rates and extension of various concessions were made in the budget of 1994-95 along with extension of MODVAT scheme to capital goods. Due to these factors, the duty liability as a percentage of assessable value for the year 1995-96 was 9.9315 percentage and the yearly index was 88.56, comparatively less than the index of other years.

2. The statistical analysis of variance technique was used. The null hypothesis was taken as

$$H_0$$: The divisions do not differ significantly with respect to duty liability.
The various sums of squares have been obtained. The table value of F distribution for (8,36) degrees of freedom at 1% level of significance was 2.984. Since the F ratio was greater than the table value, the null hypothesis was rejected. The divisions differed significantly with respect to duty liabilities.

To check the significance of individual divisions students t-test was also used. The null hypothesis to test the mean liability of the two divisions was taken as

\[ H_0: \text{The average duty liability of two divisions have been the same.} \]

The table value of t-distribution at 1% level of significant for (8,36) degrees of freedome was 3.0621. The calculated value was greater than 3.0621. Hence, the null hypothesis was rejected.

The Divisions I, IV, V, VII and IX differed from the overall average duty liability. It was found that

a) Division I (Tuticorin) area has many large scale well established cement industries. They paid duty at a rate of 16%.

b) Division IV (Sivakasi) is clustered with fire work industries. They cannot take MODVAT credit except on certain chemicals, fire works units are mainly large scale and numerous in number. So, their duty liability was more than the other divisions.

c) Division V (Rajapalayam), Division IX (Dindigul) are located with many spinning units. They operate on a small scale. They
enjoy SSI concession and pay duty at 5%. Hence, their duty liability was less.

d. Divisions VI and VII (Virudhunagar and Kovilpatty) are unique in nature. These two divisions are housed with innumerable small match industries. Match industries are subject to specific duty. Their assessable value has no relevance as duty is paid on the basis of volume of goods cleared.

3. To compare the effectiveness of MODVAT scheme with the overall ratio to duty liability of Madurai Commissionerate, the intercorrelation co-efficients were calculated.

The results of the analysis have been furnished as follows:

a. Division IV Sivakasi differed significantly with other divisions due to the fact that it is clustered with fire work industries. Moreover the production is made throughout the year.

b. Divisions VI and VII had been positively correlated with other divisions except with Tirunelveli (Division VIII). Division VI (Virudhunagar) and VII (Kovilpatty) have been clustered with match industries. The match industries are subject to specific duty. The Tirunelveli (Division VIII) houses all types of industries small and big; cement and tobacco units.

c. Division IX (Dindigul) was positively correlated with all industries except with Division VIII. The Dindigul division houses more small spinning units. Where as Tiruvelveli has large scale cement units and Tobacco units. Hence, Dindigul Division was different from Tirunelveli.
Excise Revenue and Duty Liability

1. The excise revenue was computed as a percentage of duty liability. The yearly index was also calculated which revealed a fact that the revenue realisation had been decreasing over these years.

i) To test if all the nine divisions differed significantly with respect to average ratios of excise revenue to duty liability, the ANOVA technique had been used.

The null hypothesis has been taken as

\[ H_0: \text{The average ratios of excise revenue to duty liability of nine divisions are equal.} \]

The F test was applied. The calculated F ratio was greater than the F-Table value at 1% level of significance. It was deduced that all nine divisions differed significantly with respect to average ratios of PLA to duty liability and the null hypothesis was rejected.

ii) The students t-test was used to compare the mean of each division with the overall mean ratios.

The result of t-test were

a. The excise revenue of Division II was significantly less than other divisions. Division II has a number of industries of plastic and rubber. These industries enjoyed MODVAT credit benefit on all inputs including packaging material. Their contribution was less to the Government.
b. Division VI (Virudhunagar) contributed more to the excise treasury due to the fact that the fire work units use negligible MODVAT credit. Majority of the duty liability has been discharged in cash.

c. Divisions I, IV and VII differed at 5% level of significance. Division I (Tuticorin) collects revenue from chemical and cement industries which are operating on large scale. They enjoyed MODVAT credit at 50% of duty liability and paid 50% of duty liability through PLA.

ii) In Divisions IV (Sivakasi), and VII (Kovilpattiy) the excise revenue had been more. This is due to the presence of match industries who cannot take MODVAT credit and fire work unit with negligible input credit.

5. Inter correlation co-efficients have been calculated to study the impact of MODVAT scheme on PLA for the nine division. The analysis of the coefficients of different division with one another disclosed that

(a) Division IV significantly differed from other divisions. The revenue contribution has been greater than all divisions.

It was concluded that Sivakasi's contribution to excise treasury had been maintained or increased. Due to MODVAT credit, the excise revenue of Sivakasi had not suffered much.

6. Input Credit

The impact of the scheme on input credit was studied. The input credits have been computed as a percentage of duty liability. The yearly
index of input credit utilisation registered a marginal growth. The null hypothesis assumed was

\[ H_0: \text{The average ratios of input credit to duty liability of nine divisions are equal.}\]

The ANOVA technique was used to test the hypothesis.

The F test was applied. The calculated F ratio was greater than the F-table value at 1% level of significance it was concluded that all nine divisions differed significantly with respect to average ratio of input credit to duty liability. The null hypothesis was rejected.

The students t-test was used to compare the mean of each division with overall mean of ratios.

The results of the t-test have been shown below:

(a) Divisions I, II, III, V, VI and VII differed significantly from the overall ratio at 5% level of significance.

The average ratio of Divisions I,II and III were higher than the general average ratio. It is due to the fact that these divisions house chemical units, plastic units and cement units. All these industries are large scale industries. Their use of input is more. Plastic units are the users of the scheme to maximum extent.

The average ratios of input credit in Divisions V, VI and VII were less than the general average ratio. These divisions are clustered with match, fire work, tobacco units either with no MODVAT credit or negligible credit.
7. Intercorrelation coefficients for all the nine divisions have been calculated. Analysis of coefficients of correlation brought out that

a) The inter correlation coefficients of Divisions I, II and III have been positively correlated with other divisions except with divisions IV, V and VI. The reason is Division I, II and III house more industries utilising MODVAT credit benefits both on inputs and capital goods.

b) The Divisions IV, V and VI, (Sivakasi, Rajapalayam, Virudhunagar) are clustered with industries such as fireworks, match work and spinning units. Fireworks use negligible credit. Match work cannot avail themselves of MODVAT credit scheme. Spinning units are small scale units with less clearance of Rs.100 lakhs and use less credit.

CAPITAL GOODS CREDIT:

8. The analysis of MODVAT credit on capital goods with respect to duty liabilities has been made. The yearly index was calculated which unfold that utilisation of credit on capital goods increased by more than 6 times in the study period.

(1) to test if all the nine divisions differed significantly with respect to average ratios of capital goods credit to duty liability the ANOVA technique is used:

The null hypothesis has been taken as

$$H_0:$$ The average ratios of capital goods credit to duty liability of the nine divisions are equal.
The F-test was applied. The result of test unfolded that the calculated value was greater than F-table value at 1% level of significance. The null hypothesis was rejected. The divisions differed significantly in using MODVAT credit on capital goods.

The Student's t-test was applied. With this test it was found that

a) Divisions II and IV differed significantly at 1% level of significance.

b) Division VIII differed at 5% level of significance.

Division II, IV and VIII used less amount of capital goods credit in discharging their duty liability. The plastic units (Division II) took more inputs credit.

Division IV (Sivakasi) has firework units which are labour intensive. They do not use MODVAT credit on capital goods. Division VIII is clustered with all type of industries like matchwork, tobacco and small scale units. The small scale units cannot enjoy MODVAT credit benefit on capital goods until their clearance value exceeds Rs.100 lakhs.

9. Intercorrelation coefficients of one division with other divisions were made. The analysis threw light on the fact that

(i) only Division IV differed with other divisions because of meagre utility of capital goods credit by fire work units and match units.
10. The study has brought to sharp focus of revenue leakage with comparison of yearly Index of MODVAT credit utilisation by industries of various Divisions over a period of 5 years.

The study has brought to light that Division V and VI had revenue leakage. When MODVAT credit on capital goods increases there must be a corresponding increase in input credit and PLA. Because more use of machines lead to more production and more use of input. In these two divisions, there had been increase in capital goods credit without corresponding increase in input credit. There was revenue leakage in the aforesaid two divisions.

It is therefore clear from the foregoing analysis that misuse of MODVAT credit leads to revenue is leakage.

FINDINGS OF SURVEY DATA COLLECTED FROM MANUFACTURER-ASSESSEES

Two hundred and twenty units (Corporate entities) registered with Central Excise Department, Madurai, with five years records as to utilisation of both credit had been considered in the study. The respondents comprised 60 small scale units (enjoying MODVAT credit), 160 medium scale units and large scale units.

The responses were grouped into six categories of industries namely chemical, rubber, plastic, engineering goods (machinery electrical and electronics), textiles and cement. The findings of statistical analysis of the data have been summarised as below:-
In order to know the extent of utilisation of MODVAT credit scheme, the excise revenue, utilisation of input credit and capital goods have been analysed. This analysis is made to find out how far capital goods credit help in modernisation and growth.

1. (a) The percentage of excise revenue (PLA) to duty liability of each industry was calculated. The ANOVA technique was used to test the null hypothesis:

\[ H_0: \text{The average ratios of excise revenue (PLA) to duty liability for the six industries are the same.} \]

b. The various sums of squares and F-ratio were calculated. The calculated F-ratio was greater than F-table value (3,90) at 1% level of significance. Hence, the null hypothesis was rejected and concluded that industries differed significantly in paying revenue through personal Ledger Accounts.

(b) To test the average ratio of each industry with overall average ratio, the students' t-test was used.

The t-test revealed that revenue from chemical, cement and plastic industries differed at 1% level of significance. The textile industry differed at 5% level of significance.

The chemical and cement industries are large scale industries. There are five cement units in Madurai Commissionerate, of which 4 are large scale units. The Dharangadhar Chemical Works, largest single unit which contributed nearly 70% of excise revenue from chemicals. All these industries have paid duty at 16% ad valorem.
Plastic and textile contribute less than the overall average ratio as plastic units avail themselves of the MODVAT scheme to an optimum extent. The textile industry has been given MODVAT since 1995. Hence they also took MODVAT credit to a large extent. All these contributed to the reduction in revenue.

2. To study the intercorrelation among different industries, the ratios of PLA to duty liability were used to calculate coefficients of correlation. The analysis has brought to surface that

The cement industry was negatively correlated with all of other industries except with plastic industry. The nature of data also led to certain inference. It was inferred that the pattern of PLA had been the same for plastic and cement.

3. INPUT CREDIT

The ratios of input credit to duty liability for all six industries were calculated in this study. The analysis of variance was used. The statistical null hypothesis was assumed to be

\[ H_0: \text{The average ratio of input credit to duty liability for all the six industries are the same.} \]

The F-test result disclosed that the calculated F-ratio was greater than F-table value at 1% level of significance. The null hypothesis was rejected and concluded that the average input credit to duty liability had not been same.
The students' t-test was used to test the equality of average ratio of each industry with overall average ratio. The findings revealed that

a) The chemical industry differed significantly at 1% level. The chemical industry used less input credit. This could be due to lesser duty rate on chemical input leading to lesser accumulation of credit.

b) The plastic and textile industry differed at 5% level of significance. The industries have used 55% of input credit for discharging duty liability. The plastic industry enjoy MODVT credit benefit on all its inputs including HDPE sacks. The textile items such as fabrics, cotton textiles were given MODVAT benefit only recently leading to more use of credit.

4. The analysis of coefficients of correlation unfolded that except cement industry, all other industries were positively correlated with each other. The use of input credit by cement industries was decreasing over these five years whereas it was increasing for other industries. A disquieting feature of the study is that the cement units were found struck by industrial recession and stagnation in the infrastructure industry.

**CAPITAL GOODS CREDIT:**

5. The capital goods credit to duty liability for six industries have been calculated. The analysis of variance tool was applied whether all six industries had the same average ratios of capital goods credit to duty liability over a period of five years. The null hypothesis was
\( H_0 \): The average ratios of capital goods credit to duty liability of all industries are equal.

a. The F-test was applied. The calculated F-ratio greater than the F-table value at 1% level of significant. The null hypothesis was rejected and concluded that the average ratio of all six industries differed.

b. The students’ t-test was used. It was observed that there had been gradual growth in utilisation of capital goods credit in all industries except chemical industry where there was sudden spurt in utilisation of capital goods credit implying employment of machineries or replacement of old machineries.

6. The intercorrelation coefficients of six industries had been calculated which revealed that

a. The co-efficient of correlation for the plastic industry is negative with rubber and cement industry. The reasons that could be attributed include a) in plastic industries, the utilisation of capital goods registered buoyancy in 1995-96 and there after it started declining.

b. In cement industries, the use of capital goods credit was roughly 3.5 per cent of duty liability. It may be attributed to replacement of machineries. The plastic industry and rubber industry differed from cement industry, they are relatively of recent origin and they have less chance of replacing their capital goods.
The study considered analysis of overall mean by excise revenue, input credit, capital goods credit of all respondents. A shocking revelation of the study is that the average revenue collection had been decreasing with increasing trend in MODVAT credit. The credit on capital goods had risen significantly from 0.720% to 2.189%. This three fold increase had no corresponding increase in revenue or input credit. It could, therefore, be inferred that there is revenue leakage in the form of capital goods credit.

Further Findings of the study

The opinions of respondents have been gathered to study the various procedural aspects of MODVAT scheme. 'Factor Analysis' was made with SPSS package.

The opinion on 17 statements has been grouped into four categories such as:

1. MODVAT scheme has more procedural drawbacks.
2. MODVAT scheme is more beneficial to consumers.
3. MODVAT scheme is more beneficial to manufacturers.
4. MODVAT credit on capital goods influences positively the profit of manufacturers.

The null hypothesis was taken as

\[ H_0: \text{The MODVAT scheme is not dominated by procedural drawbacks and flaws.} \]
The mean, standard deviation and reliability co-efficient have been calculated to test the following null hypothesis

\[ H_0 : \text{The coefficient of correlation between two dimensions is zero.} \]

(i) The reliability coefficients have been positive and supported relevance and consistency of clustering.

(ii) Intercorrelation among different dimensions have been calculated to test overall impact of the scheme and impact of each factor (dimension) with one another. The results have been summarised below.

a. All the four dimensions were found highly positively correlated with overall impact of MODVAT scheme.

b. The correlation coefficient among the four dimensions were found positively correlated and significant at 1 per cent level.

c. The coefficient for the first factor namely procedural drawbacks with overall impact has been the highest i.e. 0.8084.

It is clear from the above factors that the hypothesis was disproved and the scheme has been dominated by procedural drawbacks. Moreover, all the dimensions were found positively correlated (i.e) any change in the scheme may result in further addition to the existing drawbacks.

d. There is least benefit to consumers at the cost of drawbacks.
The technique of analysis of variance was applied the test if all the four dimensions had the same response. The statistical hypothesis was taken to be

\[ H_0: \text{All the four dimensions have equal mean scores.} \]

F-ratio was greater than the table value of F-distribution (3.78) at 1% level of significance. Hence, the null hypothesis was rejected.

Another significant feature of the study is that all 220 respondents had offered their opinion depending upon the intensity of the seventeen questions.

Ranks were given to various dimensions depending upon their averaged mean. The results of the study have been summarised below.

1. The scheme is found dominated by more procedural drawbacks and had the averaged mean of 3.76. This dimension has been awarded first rank.

2. The scheme is more beneficial to manufacturer had the averaged mean of 3.54 and obtained the second rank.

3. The proposition that MODAT credit on capital goods enhance the profit of manufacturers with the averaged mean of 3.35 got the third rank.

4. The proposition that MODVAT scheme is found more beneficial to consumers with the averaged mean of 3.33 secured the last rank.
Various questions were posed to the respondents to get their opinion about various Rules governing MODVAT. The findings of the data collected from the manufacturer assesses have been summarised below:

1. The survey revealed that 70% of respondents observed that they included all elements of cost in the selling price such as raw materials, labour, overhead interest on borrowings, depreciation and duty on inputs.

2. A significant number of 87% of respondents surveyed disclosed that they increase or decrease the selling price according to the prevailing conditions of market. They further added that they would increase the selling price whenever there is increase in cost of raw material or duty rate.

   A significant finding is that there will not be any reduction in the selling price due to reduction in the duty rates.

3. A good majority of 86% of respondents opined that they face many difficulties due to frequent changes in the duty rates. They feel handicapped in estimating working capital requirements.

4. Another finding of the study is that respondents constituting 72% of sample survey agreed that they did not get refund of MODVAT credit unless the goods are exported. Evenwhere the incidence of duty is not shifted, the government does not concede the legitimate demand of duty refund. (when excess
duty has been already paid due to wrong classification or subsequent reduction in duty rates)

5. A shocking revelation of the study is that all respondents were of the view that Rule 57(F) is not a beneficial legislation.

6. The survey has brought to sharp focus that respondents constituting 95% of sample survey produced only dutiable goods and the remaining 5% of respondents produced both dutiable and non dutiable goods. It was observed during the survey that they paid 8% of price of non dutiable goods cleared because of difficulty in bifurcating inputs used for manufacture of dutiable and non dutiable final product.

7. Another important finding of the study is that all respondents perceived that MODVAT credit is very helpful to them.

8. A striking disclosure of the study is that the industries in the small sector perceived that the MODVAT rules were found to be very much complex and complicated and the language is beyond the comprehension of their financial managers. They were worried about the cost of availing of MODVAT credit with the aid of lawyers and consultants.

9. An astonishing feature of the study is that the small scale industries revealed the problem of getting inputs under MODVATABLE invoice as they buy their raw material requirements from open market at the time of getting job orders.
Findings of Survey Data Collected from Excise Authorities

The study considered 30 range inspectors and 20 range superintendents as they were chosen at random. The data collected from them revealed the following:

1. Excise authorities constituting 90% of the survey opined that MODVAT is a concession scheme and it is a step towards Value Added Tax.

2. The respondents ranked the beneficiaries of the scheme.

   It came to light that manufacturers have been benefited most followed by dealers, while the third beneficiary was the Government. The last to benefit were the consumers.

3. The study pointed out that out of 50 respondents 54% were of the view that the excise revenue has not increased substantially.

4. Again the study has brought to light that the Government had no machinery or formula to ensure the passing up of MODVAT benefit to consumers.

5. A shocking revelation of the survey is that the duty element had no correlation with the cost of production. The excise authorities were unanimous in this view that due to different bases for levy of tax, the duty had no direct correlation with cost.
6. It was also brought to light that the abolition of 1:1 correlation between input and output did not lead to inclusion of fictitious input in the declaration.

7. A simple majority of 51% per cent of authorities did not support credit on capital goods.

8. The survey observed that respondents constituting 49 per cent opined that without capital goods a product cannot be brought into existence. Hence, they felt that it was appropriate to stretch MODVAT credit to capital goods.

9. Concerning transparency, the respondents were asked to rank the reasons as to why no public interest litigation has been filed against any manufacturer for not passing on MODVAT benefit to public. The reasons gathered have been ranked in the following order:

1. There is no exact method of evaluation of impact of MODVAT credit on selling price.

2. Multiplicity of taxes hinder such a study.

3. There is no legal binding to pass on. There is no statutory provision in the Act making compulsory the passing of MODVAT benefit to public. Section 11B and 12 of Central Excise Act, deal with unjust enrichment and creation of Consumer Welfare Fund. It was observed that the government has not bothered to create a provision for passing on the benefits to consumers.
4. The Act is less transparent and not known to the public. The text of law is beyond the comprehension of a common man.

5. In India, litigation is a costly affair.

6. It is not possible to say whether the benefits are passed on or not in the inflationary economy.

7. In competitive business, the benefits are automatically passed.

10. The survey brought to light that the entire excise officials had a strong belief that there are means to check utilisation of MODVAT credit on capital goods with respect to duty element present in capital goods for the purpose of calculating depreciation.

11. The study pointed out that respondents constituting 70% of survey were found to have been conversant with Rule 57A-57U by self learning and not by any exclusive training on this subject.

12. The survey further unfolded that all authorities felt that all ranges are required to be computerised for effective administration of MODVAT.

Problems and Suggestion

1. Cascading effect

The essence of MODVAT credit is defeated where the benefits of concession are not passed on to end consumer. The Government must make necessary provisions in the Act, to show the MODVAT credit
utilised as a deduction from the retail selling price. At present, there is no machinery except "Consumer Welfare Fund".

2. Minimum Duty Rate

Invariably almost all respondents want the government to reduce the duty rate. They feel that new duty rates (basic duty and special duty) are not helpful. The effective rate remains the same.

Instead of MODVAT credit, the payment of duty may be made compulsory with minimum rate. The trade suggested that the maximum rate should be only 10%.

3. Capital Goods Credit and Depreciation

As far as depreciation on "duty portion of capital goods" is concerned, the assesses may be directed to produce a declaration to the Income Tax Department, that they won't claim depreciation for the credit utilised. A copy of such declaration acknowledge by the Income Tax Department must be filed with Central Excise Department.

4. Restriction on Capital Good Credit

To arrest revenue leakage, credit may be restricted to duty paid on plant and machinery only. The MODVAT credit for spare parts and components must be withdrawn.

5. Input Credit

To plug the loophole, MODVAT credit must be restricted only to inputs forming part of finished goods.
6. Erosion of Revenue of MODVAT credit on Stock

This occurs when a manufacturer has two units. To clear the finished goods of one unit he may use the credit on raw material, packing material, spares of other units lying in stock, by transferring the stock to other unit. This leads to erosion in excise revenue.

It is suggested that input credit must be given only for those materials used in that particular process. MODVAT credit on "Stock" must be abolished.

7. Dominance of Judiciary

The system cannot be made foolproof and judiciary overpowers legislation. The Act must be made clear and inclusive.

8. Rule 57A

Rule 57A talks of eligible input for this credit. There are numerous precedents from which the eligibility is finalised. Instead, the department after considering the verdicts of different cases, prepare a list of eligible inputs and capital goods for MODVAT purposes. This list may be printed and circulated to all assessee so that the requirement as to getting the acknowledgement of Assistant Commissioner may be dispensed with. The declaration can be compared with the test and necessary permission can be obtained from Range Superintendent. the dubious cases may only referred to Assistant Commissioner.
9. Self Assessment Procedure

With regard to self assessment procedure, the respondents admitted that it is not their duty to assess the tax. Formerly, the Assessing officer would calculate the duty liability. Now, the assessees with their little knowledge in excise matters have to calculate the duty liability, which also becomes a source of harassment as there is a chance of wrong calculation. This passes the way for corruption and litigation. It is suggested that the work of assessment may be entrusted to assessing officer of excise department.

10. Language of Law

As pointed out by the respondents, the text of law is found to be complex. A man of ordinary intelligence can never get its meaning by reading it once. It requires repeated reading, in depth reading and careful interpretation. Sometimes, it requires "reading between lines".

The law framers must keep in mind that law is for the public to be read and used in practice of trade. It is not a place to show their linguistic excellence.

11. Double Jeopardy

The punishment for MODVAT offences are inbuilt in Rule 57I. The same punishments for MODVAT violations are contained in Rule 173Q. The law is very clear that "Specific Rules prevail over General Rules". Hence, it is suggested that the rules contained in Rule 173Q for MODVAT violation can be repealed. The trade considers it as "double jeopardy".
12. Delay in taking credit

The trade feel that they must be permitted to use the MODVAT credit as soon as goods are received. A time period of 2-3 months is wasted while waiting for the permission of officials.

13. Verification of Invoice

The verification of invoice causes maximum problems to excise officials. The industries produce vouchers for Rs.5 to crores. In order to check the genuineness of the invoice, innumerable financial transactions require verification. The verification of MODVATABLE invoice must be made with online service through computers linking all excise departments.

14. Physical verification

Physical verification at the time of clearance of goods will control the misuse of MODVAT. This is compulsory till all the ranges, divisions and commissionerates are fully mechanised with computers and linked to the computers of the asseesees so that 100% checking of invoices and entries is possible.

15. Tiny Sector

The study has brought out an interesting analysis about Tiny sector, when the interview schedules were administered to various asseesees.
At present, the tiny sector does not come under the purview of excise. They find it very difficult to compete with their counterparts in small scale and large scale sectors. These has been an apprehension of this sector being wiped out of the industrial map because of MODVAT scheme. The cost of production of tiny sector becomes higher than the other sector due to cascading effect of duties on inputs used by them.

It is suggested that some cash credit or subsidy in lieu of MODVAT must be given to them, if they are to be saved.

16. MODVAT Audit

At present only 'selective audit' is conducted to minimise "MODVAT misuse". It is suggested that Excise audit must be conducted for all units along with their statutory audit. A separate MODVAT audit may be undertaken to arrest the misuse of MODVAT.

17. Selective Audit and Corruption

The excise authorities are of the view that by the introduction of self assessment procedure and selective audit, the field officers have to confine themselves to focus on periodic returns and MODVAT. Vital areas like valuation, applicability of exemption notification are under selective audit team. At present audit is done once in a year. Due to paucity of staff members, some of the units may remain unaudited for a long time. This paves the way for corruption.

It is suggested that urgent thought is given to the matter selective audit. Any audit whether selective or comprehensive has to cover all assessees at periodic intervals.
18. Rule 57F

Concerning the reversal of credit, on goods sent for job work or test, the rule is rigorous in nature as credit may be taken only after all goods are received in toto. The trade expects the Government to alter this provision. It is suggested that they may be permitted to reverse the debit entry as and when they receive the goods in proportion to the lot received in the total value of goods sent for such work.

19. Small Scale Industry

The small scale industries need not be given MODVAT benefit. Instead the duty may further be reduced. The presence of many concessions (with and without MODVAT) lead to confusion. The ceiling for non-dutiable clearance may be raised to Rs.100 lakhs without MODVAT facility. The free wheeling of in an out of MODVAT scheme hinders the study of impact of fiscal concession to SSI sector. They feel the problem of getting MODVATBLE invoice as they purchase raw materials whenever they get orders.

20. Rule 57T(1)

The industry feels that there is no clear cut rules for repeated purchase of capital goods. Only one declaration is given. But due to changes in technologies capital goods are purchased often. It is suggested that the defacement in invoices can be done quarterly or half-yearly. Hence, Rule 57-T(10) and Rule 57G(8) may be changed accordingly.
21. Undue Delay in Adjudication Process

The manufacturers make a general complaint against the excise department that there is undue delay in adjudication process and no time limit is prescribed for issuing the adjudication order. The assessee feel that if the cases are in their favour, the adjudication orders are kept pending by the adjudicating officers.

It is suggested that the Ministry of Finance shall set the quasi-judicial wings of Central Excise department in its proper perspective, because "justice delayed is justice denied.

22. Training of officials

At present, units have to maintain several different records for the purpose of excise duty calculation. There are different methods of accounting practices for MODVAT and excise duty payment. The excise officials find very difficult to read and interpret such technical details. It is suggested that they must be given exclusive rigorous training in accounting practices.

23. Central Excise Tariff Act

The officials also feel the problem of classification of goods for the purpose of identification of correct duty rate. They consider that the Tariff Act is ambiguous. The excise officers cannot decide a particular classification when trade understands a product in a different manner. The Tariff Act must be amended to make it clear and simple.
24. Formation of Special Tribunals

In order to expedite the litigation procedure, special tribunals must be formed to hear MODVAT cases exclusively. Approaching High Court or Supreme Court cause undue delay in getting justice.

25. Drafting of circulars/Notification and Intimation there of

For correct use of tax credit and exemption notifications all circulars, trade notices may be drafted clearly in an unambiguous manner an be circulated to all assessees by sending through registered post. The cost of postal service may be recovered form the assessees.

26. Attitudinal Change

It is complained that the excise officials always have an eye of suspicion. For success of any scheme the first and foremost requirement is attitudinal change. The suspicious attitude need to be cleansed from the working style of the departments. Many good schemes simply flopped because of the work attitude of the staff and the trade admits that there is unabated corruption.

The Government has to initiate concrete measures to wipe out this corruption from all government departments.

27. Passing on the Incidence of Duty

Refund of credit is made, if it is proved that the manufacturer has not passed on the incidence of duty to the buyer. But the documents that are to be produced to establish that he has not passed on the incidence of duty have not been specified. No clear cut guidelines exist on this subject. The manufacturers feel that some times when excess
duty is demanded they pay; but they could not pass on this to buyer as the contract with the buyer is already executed. Such time they feel the difficulty of getting refund due to insufficiency of information in the documents, they keep under Excise Rules. It is suggested that necessary rules are to be framed.

28. Unnecessary threat by Excise Officials

While collecting data, the manufacturers revealed their fear of excise department. The industrial units did not want to part with any information because of fear of arrest and detention. They secretly admitted that the preventive units hold the threat of arrest when the necessary information were not supplied to them. The law declares that even convicts of criminal charges should be treated humanly. An ordinary central excise licensee whose liability is only to pay duty and in case of duty evasion, penalty to the extent of duty evaded could be levied. It is against law and natural justice to threaten a person with arrest when it is not warranted.

29. Rationalisation and Simplification of Tax Rates

The textile industry is the worst hit with multiplicity of rates. The bases are many and the rates are too many. This lead to complication and tax evasion. Different rules are provided for composite mills, independent processors. The tax rates must be rationalised.

30. Unpleasant revenue drive by Excise Officials

At the end of every financial year, "the revenue drive" plagues the excise department. The central excise officials demand cash payment of duty through PLA by not allowing the utilisation of credit on rising
flimsy objection. This is a headache to the already recession hit industry. This revenue drive will become meaningless and they go to reduce the revenue of the following years. This unethical practice must be done away. Only through industrialisation more revenue can be generated and not through unpleasant revenue drive by excise officials.

31. Computerisation of Records

All forms used for excise purposes must be computerised. Software packages are to be developed to check incorrect use of credit of capital goods and inputs. The present rules requiring the maintenance of records for five years may be altered to provide for the maintenance of records for three years only.

32. Stability in Duty Structure

The Government should do away the practice of changing the duty rates every year. Moreover, the Central Board of Excise and Customs is also empowered to change duty rates by notification. Unless the rates are kept at the same level at least for a period of five years, their effect on economy can never be studied.

33. Reduction in duty rates

Last but not the least, the duty rates must be reduced in the real sense. The concept of special excise duty must be completely withdrawn. More tax lead to more evasion.
CONCLUSION

A government mobilises revenue for its various welfare activities by taxes. Among the two different taxes, indirect taxes are indispensable. Indirect taxes are less inconvenient and less burdensome. The tax payers generally pay them while they buy goods and services in the market. The amount of tax is included in the price of commodities. Indirect taxes are collected in the form of increased selling price. They are productive and elastic. They contribute to the promotion of social welfare. Taxes imposed on intoxicants like opium, cigarette serve a great social purpose by curtailing and limiting consumption of harmful commodities. Indirect taxes are just and equitable. They are powerful tools in moulding the production and investment activities of the economy.

Indirect taxes contribute 70-75 per cent of total revenue to the Central Government. Among indirect taxes, excise duty alone contributes nearly 35%. Excise duties help the government to raise revenue from those sources which are inaccessible by direct taxation. As excise duty is commodity tax, it is used to nurture, an industry, to boost the development of certain industries by giving concessions, exemption and to desist manufacture and consumption of certain undesirable products by increasing the duty rates and not allowing concessions. For instance Alcohol products, Biris, Cigarettes.

In India, Modified Value Added Tax was introduced with effect from 01-04-1986 in line with Value Added Tax system prevailing in foreign countries.
MODVAT is a concession offered to manufacturers of excisable goods. The industry enjoys the advantage of the concept of availing MODVAT facility which effectively reduces the purchase price of input. The scheme avoids repeated payment of duties from raw material stage to the final product and this reduces the total burden of duties on the final product. There is savings on account of interest because excise duties are paid at different stages. MODVAT is enacted to bring down the cost of final product through the availability of instant credit of duties paid on the inputs and subsequent reduction of interest cost. The unethical jacking up of prices by manufacturers on the pretext of any additional increase in taxes is expected to be effectively curbed in MODVAT scheme. The scheme is helpful in exports by facilitating duty drawbacks.

The present study clearly brings to light that to utilise MODVAT credit for discharging duty liability on final products lengthy procedure is to be followed. The study observed that the MODVAT laws are complex in nature leading to many interpretation. The findings of the study unfold that the government amends rules which become effective within a few hours. The government never thinks of the real difficulty of adjustment to be made by the industry to comply with the instruction of the government. The government also faces the problem of evaluating its amendments. Frequent changes in duty structure must be stopped.

The survey pointed out that as for as MODVAT is concerned, the dispute starts with the determination of duty liability. Each and every provision of Rule 57 is subject to dispute. The intricacy of the
subject cause duty evasion and misuse of MODVAT credit. A shocking
revelation of the study is that

a. There is revenue leakage in the form of capital goods credit.
b. The stretch of MODVAT credit to capital goods has not brought
   the desired result of modernisation or expansion.
c. MODVAT scheme is dominated by procedural drawbacks.
d. Most of the respondents openly admitted that the scheme is
   beneficial to manufacturers as it reduces their duty liability.
e. At the cost of defects and loopholes of the scheme, the
   consumers are benefited.

The research study has brought to sharp focus that though the
utilisation of MODVAT credit on capital goods had increased over the
period of years, it has not resulted in modernisation or expansion.

To make a flawless MODVAT scheme and litigation free
economy, the Government must consider implementing proposals like

- uniform rate of duty for all commodities
- rationalised affordable rate of duty
- minimising the contact between officials and assessees
- expeditious adjudication procedure
- simplification of law and procedure

After all, the revenue is generated by the industries and not by
the Excise Department.