CHAPTER II

AN OVERVIEW OF THE EVOLUTION OF EXCISE DUTIES.
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2.1 Before undertaking a comprehensive study of excise duties, it is necessary to get fully familiarised with the process of evolution of the tax structure over time. In this chapter, the development of the tax structure in terms of base and rate changes is traced in a chronological order from the inception of excise duties in the pre-independence period. At the outset, the genesis and development of excise taxation in European countries is briefly outlined to provide a historical perspective and thereafter, the extension of the coverage of excise duties in India is examined in detail. In the later part, the revision of tax rates is reviewed with reference to the frequency before and after independence. Finally, the complete tax structure as it exists now is presented by classifying the taxable goods into consumer goods, consumer durables, inputs and capital goods with a view to bring out the differences in tax treatment to different types of commodities. This approach is meant for providing the background for the study of the development of complexities in the excise duty structure in the succeeding chapter.

2.2 In European countries excise duties were introduced for the first time towards the end of the middle ages mainly
for paying the increasing state debts. Historically, excise duties were normally imposed after some major political event having economic consequences. For example, in Netherlands, excise duties were introduced after the freedom fight against the Spanish and in England the levies were imposed following the struggle for supremacy between the Parliament and Charles I. Initially, the duties were confined to a few selected articles of mass consumption like meat, flour and beer but the coverage was subsequently extended to many other consumer goods for raising resources. By the end of the 19th century, the importance of excise duties gradually declined due to the emergence of income and property taxes which were considered as better tools for mobilising revenue.

2.3 In the United States, federal excise duties were introduced for the first time under Hamilton's administration for paying the debt charges. Subsequently, these levies were abolished in 1802, but they were reimposed during the war of 1812. In 1817, excise duties were again repealed but the civil wars brought them back on a larger scale including new forms of excises like licence fees for trades, etc. In 1863, commodities covered by excise levies were only tobacco and liquor but consequent upon the Spanish-American war, the duty rates on these items were increased and tax base was further widened. As a result of the war of Torts, large scale commodity taxation was again introduced in 1914 but by 1928 the rigours of the levy were considerably reduced. After the wars, excise duties became less significant due to the rapid growth of direct taxation.
2.4 The Indian experience of excise duties dates back to very ancient times but specific instances of commodity taxation are known mostly from the Mauryan period. In this period, liquor and salt were subjected to excise levy and a licence was also required for their production. During the Mogul regime, there were several kinds of taxation such as excise duties, taxes on income, octroi etc., but the most common commodity tax was salt duties.

2.4.1 Taxes on salt, whether in the form of excise duties or transit levies or custom duties, were the oldest known form of commodity taxation in India. The first organised salt revenue administration began in Bengal in 1765 after the assumption of the Dewanes of Bengal, Bihar and Orissa. In this system, the tax revenue administration ultimately became the monopoly of the East India Company. Import duty was also maintained at a fairly high level so as to minimise the possibilities of external competition. A similar type of company monopoly was also adopted in Madras during this period. However, in the Presidency of Bombay, an excise system in a crude form was in force while in the northern parts of India, salt levies were mainly in the form of transport duties and tolls. By 1833, attempts were made to explore the possibilities of introducing some kind of an excise system all over India. Consequently, excise

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duty was introduced in Bengal in place of the monopoly but it did not become operational as the indigenous production of salt was completely abandoned by 1863 due to competition from imports that rendered internal production uneconomical.

2.4.2 The Indian Taxation Enquiry Committee\(^1\) (1924) which examined the relative merits of monopoly and excises recommended certain modifications to the excise system and suggested that steps should be taken to make India self-sufficient in salt production. However, these recommendations could not be implemented in view of the local pressures and the lack of cooperation from the princely states. Towards the twilight period of the British Raj in India, salt duty became a major political issue as it symbolised the economic exploitation of India by the foreign rulers. Mass movements were organised to resist the collection of salt duties during the freedom struggle and after independence they were totally abolished in view of the public sentiments aroused against this levy in the pre-independence period.

2.4.3 At this stage, it would be relevant to examine briefly the circumstances leading to the imposition of excise duties on commodities other than salt for the first time during the British regime. The report of the Indian Fiscal Commission (1921-22)\(^2\) indicates that the imposition

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of excise duties on cotton goods was considered as yet another instance of the misuse of political domination for deriving undue economic advantage. Tracing the origin of the controversy on cotton excise, the Commission noted that in the years preceding the introduction of cotton excise, the British cotton industry had been apprehensive of the growth of the Indian cotton mills as it would ultimately restrict their Indian markets. These apprehensions were confirmed in 1875 when, following the Tariff Committee's Report, the Government of India reduced the general rate of import duties from 7.5% to 5% \(^1\) but left the import duties on cotton piece goods and yarn (which were 5% and 3.5% respectively) unchanged. The British cotton trade considered that the import duty was highly protective to the Indian mills and that their interest were totally neglected.

2.4.4 The first Indian mill started production in 1850 and by 1880 there were about 50 mills in India producing mainly coarser varieties of cotton goods. At that time, only $4.4$ lakhs worth of imported cotton goods faced some competition from Indian goods whereas $7.77$ lakhs worth of imported goods enjoyed an absolutely free market. In spite of this factual position, the issue was decided in favour of the British cotton industry and in July 1877 the House of Commons recommended immediate repeal of the import duties on cotton goods. Consequently, in 1879 even coarser varieties

\(^1\) The duties are on \textit{ad valorem} basis.
of cotton goods were exempted from import duties so that the imported goods would get a price advantage over the indigenous products. The British trade however, made a further demand for the total abolition of import duty on all varieties of cotton goods. By a second resolution passed by the House of Commons in 1979, it was proposed that the Indian import duty on cotton goods, being unjust alike to the Indian consumers and the British producers ought to be abolished. In 1882, not only import duty on cotton goods but also the general import duties on all other commodities were totally abolished. Even in 1894, when the import duties were reimposed as a revenue measure, cotton goods were left untaxed as a concession to the British cotton trade. Such open display of favouritism was strongly condemned both by the Indian public and the British trade having other interests in the Indian markets.

In 1894, the British Secretary of State suggested that import duty on cotton goods could be reimposed as a revenue measure if exemption from import duty was granted to imported goods which competed with the Indian manufacturers or, if an excise duty was levied on Indian goods which competed with imported goods. The Government of India accepted this proposal and recommended imposition of an import duty at the rate of 5% on cotton piece-goods and an excise duty of 3.5% ad valorem on Indian mill manufactured yarns of counts above 24s. However, these proposals were modified by equalising the import and excise duty at 5% ad valorem and lowering the count criterion of yarn to 20s. In 1894, the first excise levy on cotton yarn was introduced. This did not last long.
as the British cotton industry itself sought the transfer of the excise duty from yarn to cloth, on the plea that the low duty incidence on domestic industries had an adverse effect on the imports. Consequently, in 1896 the excise duty was shifted from yarn to mill-made cloth of all varieties. In 1917, an excise duty of 6 annas per gallon was levied on motorspirit for curbing the private consumption of petrol and preserving it for essential supplies and war requirements. In the year 1922, kerosene was also made excisable and in 1930 excise duty was imposed on silver. With the partition of Burma in 1935, excise duty on silver became irrelevant as there was practically no production of silver in India.

2.4.6 The Indian Fiscal Commission (1922) examined the controversial issue of cotton excise in detail and unreservedly condemned it recommending its abolition but suggested the levy of excise duty on mass consumption articles as a good revenue measure. The commission stated that the levy of excise duty to the extent equivalent to the import duties would fetch maximum revenue without making the consumers pay more than what they ought to pay but the conditions in United Kingdom as well as in many other European countries were not conducive to the levy of excise duty on items other than tobacco and alcohol. The Commission observed that in India sufficient revenue could be easily raised from excise duties on mass consumption articles. The views of the Commission on the tax policy for excise duties in India are reproduced

"(1) Excise duties should ordinarily be confined to industries which are concentrated in large factories or small areas.

(2) They may properly be imposed for the purpose of checking the consumption of injurious articles and especially on luxuries coming under this category.

(3) Otherwise they should be imposed for revenue purposes only.

(4) While permissible on commodities of general consumption, they should not press too heavily on the poorer classes.

(5) When an industry requires protection, any further necessary taxation on its products may, if the other conditions are fulfilled, take the form of an excise duty plus an additional import duty. The latter should fully counteract the former and may be pitched at a higher rate."

The recommendations of the Commission were, however, not unanimous as the Indian members expressed their disapproval and resentment in the notes of dissent. They felt that the tax policies prescribed for India were specifically designed for furthering the economic domination of the British industry as it differed drastically from the free trade philosophy accepted and advocated for the British markets.

2.4.7 The Indian Taxation Enquiry Committee (1924-25), which was the second official body to look into the taxation


problems, generally accepted the recommendations of the Indian Fiscal Commission (1921-22) with slight modifications in the fifth item which is as follows:

"(5) When an industry requires protection and a consumption tax is also required from the produce of that industry in the interests of the revenues, the necessary amount of excise is unobjectionable, provided that it is accompanied by an import duty equal to the excise duty, together with the necessary protective duty, plus a small extra duty to compensate for the administrative inconvenience to the manufacturer caused by the excise duty".

The Committee, however, did not totally disfavour excise duty on cotton goods but they did not make any recommendation as the Government had by then already decided to abolish excise duty on cotton goods. The Committee suggested certain new items such as aerated waters, medicines, betel nuts and tobacco for excise levy. They strongly recommended excise duty on tobacco as they felt that the absence of any internal taxation on tobacco was a feature which distinguished the fiscal system in Indian from that of almost every other civilised country in the world.

2.5 The next important landmark in the growth of excise duties was in 1934 when excise duty was imposed on sugar, matches, steel ingots and mechanical lighters. Except in the case of mechanical lighters, all the new levies were primarily for revenue purposes, perhaps meant for financing the war preparations. The duty on mechanical lighters was
imposed for the purpose of protecting the nascent match industry which would have been adversely affected by the establishment of mechanical lighter industry. In the case of sugar, the imposition of a surcharge of one rupee and thirteen annas per CMT on the protective duty of seven rupees and four annas in 1931 accelerated the growth of sugar factories in India which earned considerable windfall profits. It was, therefore, found necessary to impose excise duty on sugar with suitable price control for sugarcane so that the cane-growers could derive some benefit from the tariff protection given to the sugar industry. As regards matches and steel ingots, it was considered that the protection enjoyed by these industries during the war period made them prosperous enough to bear excise duties to compensate the loss of revenue from the reduction in import duties.

In 1942, excise duty was imposed on tyres for raising additional resources for the war. This industry had been enjoying tariff protection and the domestic production picked up considerably rendering it fit for an excise levy to make up the loss of revenue on the customs side. Vegetable products were also brought under excise levy in 1943. Another important development in 1943 was the imposition of excise duty on tobacco. The levy was specific with a progressive rate structure ranging from one rupee and twelve annas per pound for the best quality tobacco to one anna per pound of hookah and chewing tobacco. In addition to the duty on tobacco, excise duty was also levied on higher grades of cigars and cheroots. The revenue realised from this duty in 1943-44 was Rs. 9.65 crores.
As a beginning was already made in 1943 for taxation of agricultural products, in 1944, excise duties were extended to coffee, tea and betel nuts. But the more important event in 1944 was the consolidation of separate enactments for excise levy on individual items into a single act called the Central Excise and Salt Act, 1944. Till then, there were sixteen separate statutes for excise levy on individual commodities. These statutes, inter-alia, prescribed different procedures for collection of excise duties depending on the nature and process of manufacture of the taxed product. The consolidated Act of 1944 laid down a general procedure for all the commodities with special provisions for each deviation as may be required for a particular commodity. As indicated earlier, in 1947, salt duty was completely abolished. In 1948, excise duty was imposed on cigarettes in addition to the already existing duty on tobacco. An important item added to the excise tariff in 1949 was mill-made cloth, while reintroducing this levy the then Finance Minister stated that the duty on cloth had become necessary to supplement the revenue foregone on salt. The proposed duty was not intended to have any adverse impact on the mills as there was a protective import tariff, and that it was also expected to boost the handloom sector. After 1949, new levies were imposed in 1954 on art-silk, cement, soap and foot-wear.

With the adoption of the Constitution of India, the scope and coverage of commodity taxes leviable by the Central Government and the state governments got well-defined and demarcated. Indirect taxes leviable by the Central Government
are specifically enumerated in the seventh schedule of the Constitution which, inter-alia, includes duties of excise on tobacco and other goods manufactured or produced in India except on a few specified articles like alcoholic liquors and narcotic drugs. The relevant provisions of the Constitution of India that relate to taxation are reproduced in Appendix A-1.

2.6.1 Considering the changes in the economic scene and tax policies since independence, the Government of India instituted a comprehensive inquiry into the entire tax system in 1953. The terms of reference of the Taxation Enquiry Commission, inter-alia, included the examination of the incidence of taxation (Central, State and local) on different classes of people and in different states and the study of the suitability of the tax system with reference to the socio-economic development programmes and the need for reducing inequalities of income and wealth. The Commission was also required to examine the effect of the structure of income tax on capital formation and maintenance and development of productive enterprises. Another major task entrusted to the Commission was the examination of the utility of fiscal instruments in dealing with inflationary and deflationary situations. The Commission was also asked to make specific recommendations in regard to the modifications required in the existing tax system and also to point out fresh avenues for taxation. The Taxation Enquiry Commission which was headed by Dr. John Mathai submitted their report
In 1954*, the Commission examined the existing tax structure and suggested enhancement of duty rates for certain commodities which were already excisable and expansion of the tax base to several new commodities. The important commodities recommended by the Commission for new levies were vegetable oils, woollen textiles, paper, aerated waters, electric fans and glass and glasswares. The commission also suggested certain changes in tax administration with a view to facilitate smooth and easy collection of duties.

The recommendations of the Commission relating to the expansion of tax coverage were implemented in the 1955 budget. The new commodities which were brought under excises were woollen fabrics, electric fans, electric lighting bulbs, electric batteries, paints and varnishes. In 1956, excise duty was imposed on vegetable non-essential oils, refined diesel oil, rayon and synthetic fibres and yarn and larger motor cars.

Further expansion of excise tax base took place in 1960 when duties were imposed on rims and freewheels for bicycles, internal combustion engines, electric motors, cinematograph films, aluminium, tin plates and pig iron. In 1961 excise duties were extended to a larger number of raw materials like caustic soda, soda ash, glycerine, dyes and derivatives, zinc etc. Another notable event in the
development of excise taxation was the appointment of a central Excise Reorganisation Committee in 1960, to carry out a comprehensive examination of the organisation and functioning of the department.

The intensive tax efforts in the late sixties allegedly created serious distortions in the tax structure retarding the revenue yield and creating problems in the taxed industries. The need for a fresh approach to excise taxation was acutely felt at this time and a one-man committee was appointed for suggesting rationalisation and simplification measures. This Committee which was known as the Bhoothalingam Committee recommended several drastic changes in the tax structure. The most important one was for the introduction of a general levy at the rate of 10% ad valorem on all manufactured goods excluding certain specified commodities which deserved higher rates on revenue or other socio-economic consideration. The proposed base was to be exclusive of all input costs and the value added in the manufacture alone was intended to be dutiable. It was argued that the proposed tax structure would reliably reflect the actual industrial growth of the country and that it would also obviate the need for frequent revision of rates and extension of tax base as a part of annual budgetary

1. For details see Report of the Central Excise Reorganisation Committee (1963), op.cit. pp 209-240

exercise. The Committee strongly advocated for a bold departure from the conventional excise concepts and pleaded for the adoption of a rational and simple tax structure which would promote industrial growth without incurring any significant revenue sacrifice. It was also pointed out that the new scheme would ensure a steady increase in revenue as the built-in-elasticity of the new tax structure would automatically mop up a part of the incremental national income generated by the plan investments.

2.6.5 In the 1970 budget, it was indicated that the Government was not in a position to accept the recommendations of the Bhoothalingam Committee in toto but that they would be moving in the directions indicated therein. As a part of the additional efforts for extending the tax base, a large number of manufactured items were brought under excise levy at the rate of 10% ad valorem. In this context, it is noteworthy that between the 1969 and 1971 budget as many as 41 new items were brought within the excise net. As recommended by the Committee, specific duties on several commodities were also converted to ad valorem rates with a view to make excise revenue more price elastic. In the year 1975, having reached a dead-end in the search for suitable new commodities for excise taxation, the Government perhaps considered it convenient to give a trial to the concept of a uniform levy on manufactured goods proposed by Bhoothalingam Committee. For this purpose, an omnibus entry was

introduced bearing a nominal duty of 1% ad valorem. Relevant extracts of Finance Minister's budget speech in the Parliament are reproduced below which clearly indicates the considerations and rationale underlying the introduction of a uniform levy on residuary goods.

"I now come to a new concept in central excise taxation. Hitherto, the Central Excise Tariff covered only certain specified goods. With a view to widen the coverage of taxable goods and to provide a more dependable information base for future revenue raising exercises, I propose to introduce a new item in the Schedule which, with the exceptions, will cover all goods produced for sale or other commercial purposes not elsewhere specified in the schedule. Goods covered under this new item will be chargeable to a nominal duty at a rate of 1% ad valorem."

With the introduction of a residuary item in 1975 the scope for further extension of excise tax base has practically come to an end. However, even after 1975, certain commodities which were already subject to the general levy were taken out of its purview for creating new items having higher rates. At present, apart from the general item, there are 140 specified items in the excise tariff. The details of the evolution of the excise tax base from the

1. Government of India, Budget Speech (Part-B), 1975
   New Delhi, Ministry of Finance, 1975.

2. The coverage of the residuary entry and the revenue potential of the identifiable commodities falling under that entry are indicated in Appendix A-6.

3. Whenever the expression "commodities" is used, it denotes the broad commodity groups described under a particular item No. in the excise tariff.
inception of the levy are given in chronological order in Appendix A-2. In terms of revenue while the tax base with 2 commodities yielded Rupees 2.65 crores in 1920-21, by the year 1982-83, 141 commodities mobilised Rupees 8478.59 crores as excise revenue. Considering the tax coverage and revenue, excise duties have now become the most important single source of revenue for the Central Government of India.

2.7. In the preceding section, extension of tax coverage was examined in detail without discussing the changes in the rates of duty for individual commodities. Since changes in tax rates over time form an important part of the evolutionary process of the tax structure, the attempt in this part is to focus attention on the frequency of rate revisions and the differential tariff evolved for individual commodities before and after independence. The analysis is carried out with reference to different time-intervals and also by classifying the excisable commodities into consumer goods, consumer durables inputs and capital goods. The tax structure indicating the tax coverage and the differential rates wherever prescribed are presented in detail in Appendices A-3, A-4 and A-5.

2.7.1 In order to understand the nuances of the tax structure, it is necessary to become familiar with the tax terminology and the definitions of the various expressions used in the tax statutes. The tax structure of excise duties is what is generally referred to as "excise tariff". The excise tariff is the first schedule to the Central Excises
and Salt Act 1944 which gives the description of the taxable commodities and the rate of duty applicable. The rate of duty specified in the excise tariff is known as "basic excise duty". The basic excise duty can be either specific (i.e. on the basis of some standard measure like weight, volume, number etc.) or ad valorem (i.e. as percentage of the value of the taxable commodity.) There are also specific cum ad valorem rates (e.g. Aluminium) or partly specific and partly ad valorem rates (e.g. cigarettes, Cement, copper etc.). In certain special cases compounded rates of duty which are based on some capacity criterion are specified for simplifying the levy and collection of excise duties from decentralised sectors.

2.7.2 The basic excise duties stipulated in the excise tariff are the ceiling rates approved by the Parliament while enacting the relevant entry in the tariff. However, these rates are not always the rates at which the duty is payable at a given point of time. The actual payment is on the basis of the rate usually prescribed by notifications issued from time to time by the government by virtue of the powers delegated under the Act. These rates are known as effective rates of duty while the rates prescribed in the excise tariff are generally called 'tariff rates'. The effective rates are invariably less than the tariff rates and there can be several effective rates for the same commodity on the basis of some differentiating criteria such as sectors of production and uses, method of manufacture, etc. The important point is that while the effective rates can be altered from time to time.
by the Government, changes in tariff rates require prior approval of the Parliament and that such changes are usually effected as a part of annual budget proposals.

2.7.3 In addition to the basic excise duties, there are several other types of excise duties levied and collected by the Central Government. Despite the terminological difference, they are essentially a part of the excise system. The first of these extra levies was regulatory duty of excise which came into being when the government took the powers to enhance the excise duties within certain limits under the authority of Finance Bill, 1963 (Clause 28). The purpose of assuming the power to impose regulatory duty was to enable the government to quickly adjust the fiscal policies to the changing circumstances without obtaining the Parliament's prior approval. The upper limit proposed for this extra levy was 10% ad valorem and it was invoked in 1965 and 1971 to enhance the duty on certain petroleum products, iron or steel products, aluminium, copper etc.

The regulatory duty was replaced by auxiliary duty in the 1973 budget. The provision for the levy of auxiliary duty was selectively used until 1977 when it was merged with basic excise duty. This was done on the recommendations of the Sixth Finance Commission for making it shareable with the States.

2.7.4 Another type of excise duty levied as a surcharge on the basic excise duty was special excise duty introduced vide Clause 37 of the Finance Bill, 1978. At the initial stage, the rate of duty was only 5% of the basic excise duty.
The rate was subsequently raised to 10% of the basic excise duty and what was originally begun as a special measure for mobilising revenue without creating fresh disturbances in the tax structure, still continues with certain exemptions and concessions for some specified commodities.

2.7.5 There is yet another type of excise duty known as additional excise duty applicable to a few commodities in lieu of sales tax. This levy was recommended by the National Development Council in 1956 and introduced through the Additional Duties of Excise (Goods of Special Importance) Act 1957. This duty is confined to sugar, tobacco and its products and textiles. Since sales tax is a State subject of taxation vide Entry 54 of List II of the Seventh Schedule of the Constitution, the States are not debarred from collecting sales tax on these commodities but it provides that if any State government levies tax on the sale or purchase of such commodities, no sums shall be paid to that State as its share of the net proceeds of additional excise duties, unless the Government of India by special order otherwise directs. These commodities are also included in the list of goods declared to be of special importance in inter-state trade or commerce in the Central Sales Tax Act, 1956 and no State can levy sales tax in excess of 4% ad valorem. However, no State has so far levied sales tax on these goods.

2.7.6 There is another type of excise duty exclusively applicable to textiles as a surcharge on basic excise duty. The rate of duty prescribed under this heading is presently 15% of the basic excise duty and the entire proceeds are retained by the Central Government for promoting the common
Interests such as research and development in textile industry.

In addition to the different types of excise duties mentioned above, there are also certain commodity cesses collected along with excise duties. Cesses are ad-hoc levies meant for mobilising resources for certain specific purposes which are relevant to the common welfare of the taxed industry. The purposes, inter-alia, include promotion of research and development activities, export promotion, setting up of common institutions to look after the interest of the industry etc. The commodities on which cesses are applicable and the corresponding rates are shown in Table 2.1:

Table 2.1

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Description of the Cess</th>
<th>Act under which the Cess is collected</th>
<th>Rate of duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Handloom Cess (Cotton Fabrics, Woollen fabrics and man-made fabrics)</td>
<td>Handloom Industries per sq. meter Development (add. Excise duty on Cloth) Act, 1953</td>
<td>@ 1.9 paise</td>
</tr>
<tr>
<td>2.</td>
<td>Cess on Tea</td>
<td>The Tea (Amendment) Act, 1967</td>
<td>@ 0.8 paise per kg</td>
</tr>
<tr>
<td>3.</td>
<td>Cess on Cotton &amp; Oils</td>
<td>The Produce Cess Act, 1966</td>
<td>Cotton: 75 paise per bale of 181.4 kgs. For unbleached cotton 21 paise per 50 kgs. Oil: @ 1/- per quintal.</td>
</tr>
<tr>
<td>4.</td>
<td>Cess on Copra</td>
<td>The Copra Cess Act, 1979</td>
<td>@ 5/- per quintal.</td>
</tr>
</tbody>
</table>
2.8 The various types of duties* and cesses described above are, however, not of equal importance in terms of their revenue yield. The relative position of these duties and cesses calculated on the basis of the total revenue collection for the year 1980-81 are as follows:

<table>
<thead>
<tr>
<th>1) Basic excise duty</th>
<th>87.97%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2) Special Excise duty</td>
<td>3.81%</td>
</tr>
<tr>
<td>3) Additional excise duty in lieu of Sales Tax</td>
<td>6.02%</td>
</tr>
<tr>
<td>4) Additional excise duty on textile &amp; textile articles</td>
<td>1.02%</td>
</tr>
<tr>
<td>5) Proceeds of cesses</td>
<td>1.12%</td>
</tr>
</tbody>
</table>

2.9 Tax structure changes with reference to the rates of duty and rate revisions over time are to be examined now in continuation of the study of the evolution of excise duties. For the purpose of simplification of the task, the changes are grouped into three periods. The first period is from the beginning of the levy until independence and the second one pertains to a decade since independence. The entire developmental period is covered.

* Except cesses, revenue from all other types of duties are generally called excise revenue.
for the third period which presents the tax structure in its totality as it exists now. However, the frequency of rate revision for this period is not attempted in view of the massive increase in the number of commodities and more frequent rate changes. The data are presented in Appendices A-3, A-4 and A-5, for the three different periods.

2.9.1 Appendix A-3 shows the tax structure and rate changes from the imposition of excise duty till 1947. There were 14 commodities in the excise tariff until 1947 out of which 13 commodities were having specific rates and one was chargeable to ad valorem rates. The ad valorem rate applicable to tyres was 10% but the incidence of duty on other commodities at that point of time could not be ascertained due to the non-availability of relevant price data. Out of the 14 commodities 11 were consumer articles and 3 were inputs. The tax structure in the pre-independence period, therefore, consisted predominantly of consumer articles having specific rates of duty.

2.9.2 The frequency of rate changes in the pre-independence period was maximum in the case of tobacco (22). Other commodities that had undergone frequent rate revisions were salt (6), silver (7), motor spirit (7), kerosene (4) and sugar (4). It will be evident from Appendix A-3 that the frequency of rate changes was more in respect of commodities having several sub-items and tax exemptions. The total number of rate changes during this period was 55 which indicates that there were 770 different rates of duty applicable to 14 commodities during the entire pre-independence period.

2.10 Tax structure changes since 1947 and up to 1957 are
presented in Appendix A-4. The number of commodities during this period increased from 14 to 26. When they are classified in terms of consumer goods, consumer durables and inputs, it is seen that 17 commodities were consumer goods, 5 were consumer durables and 6 were in the nature of inputs. The number of commodities having ad valorem rates increased during this period from 1 to 6. Still specific rates continued to be dominant in the excise tariff. Combined rates were also introduced during this period.

2.10.1 The frequency of rate changes during the first decade of the post-independence period shows that the maximum changes were in respect of matches (25), cotton fabrics (20) and tobacco (19). The commodities on which duty was imposed since independence did not undergo many rate changes. The total number of rate changes during this period was 66 which shows that there were about 2000 operative rates in the first decade since independence whereas there were only 770 rates in the entire pre-independence period. This gives an indication of the intensity of the tax efforts for mobilising additional revenue for developmental purposes.

2.11 The tax structure of excise duties as on 1.3.1983 is presented in Appendix A-5. The excisable goods have been classified as consumer goods, consumer durables, inputs including intermediates and capital goods. There are about 61 consumer goods out of which 44 are chargeable to duty on ad valorem basis. The highest rates of duty among the consumer items falls on cigarettes, cosmetics, motor spirit, automobile tyres etc. Differential rates are applicable to almost all consumer goods and tariff preference is given to small and cottage sectors and
low priced goods. The large number of differential rates prescribed for consumer goods like cloth, matches, tobacco products etc. are mainly based on equity considerations.

2.11.1 There are about 29 commodities classifiable as consumer durables. Generally, tax rates on these items are fairly high as most of them are considered to be luxury articles. They include refrigerators, air-conditioners, T.V. sets, radios etc. Most of them are also chargeable to duty on ad valorem basis. Compared to consumer articles, some consumer durables have a larger number of duty rates. Consumer durables are also of recent origin in the excise tariff as most of them were made excisable in the sixties and seventies. The higher rates are presumably intended to discourage consumption of luxury goods so that resources can be diverted to priority sectors.

2.11.2 The category of inputs which also includes intermediates contains the highest number of excisable commodities. Almost all industrial inputs and intermediates are now taxable thanks to the large scale expansion of the tax base. The rates are also predominantly specific and the highest rates are for petroleum products, man-made fibres and yarn, plastics, glassware and non-ferrous metals. Although there are several differential rates for the same article, the rate structure is not as diversified as in the case of consumer goods. The last category of excisable goods are capital goods which are about 25 in number. Most of the capital goods are chargeable to duty at ad valorem rates. Duty incidence on capital goods is also comparatively low. There are also not many differential rates for capital goods. The capital goods included in the residuary entry are, however, not separately considered.
The overall tax structure of union excise duties indicates that the tariff is more complex in respect of consumer articles and inputs compared to consumer durables and capital goods. Consumer articles and inputs have more differential rates and they are also generally assessable at specific rates. It is also noticed that consumer durables and capital goods have less number of duty exemptions.

2.11.3 Unlike in the case of pre-independence period and for the period from 1947 to 1957 (Appendices A-3 and A-4), it is not possible to examine the frequency of rate revisions for the entire tax structure from 1957 to 1983. However, the frequency of rate revisions in respect of 25 commodities which contribute 78% of the excise revenue has been worked out for a fifteen year period from 1968-69 to 1982-83. The rate changes mainly refer to the budgetary changes, but they also include major non-budgetary changes having revenue significance. The rate changes are either upward revision or downward revision, but minor variations in rate having negligible revenue implications are not taken into consideration for obvious reasons. Since the 25 commodities chosen for the study of rate changes are the most significant ones in the excise tariff, the analysis of the rate changes would be indicative of the total changes in the tax structure during the developmental period. The details of the rate changes, share of the commodity in the total excise revenue and the compounded growth rate are given in Table 2.2.

1/ It is difficult to compile the frequency of rate changes during this period due to the large scale rate changes and increase in the number of commodities.

2/ The manner in which these commodities are identified is explained in detail in Chapter IV.
<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Commodity</th>
<th>Frequency of rate of change</th>
<th>Revenue as percentage of total revenue for 1961-62</th>
<th>Compound growth rate from 1954</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cigarettes</td>
<td>12</td>
<td>8.72</td>
<td>19.67</td>
</tr>
<tr>
<td>2</td>
<td>Motor spirit</td>
<td>8</td>
<td>6.96</td>
<td>15.15</td>
</tr>
<tr>
<td>3</td>
<td>Iron &amp; Steel Products</td>
<td>5</td>
<td>4.25</td>
<td>13.54</td>
</tr>
<tr>
<td>4</td>
<td>Aluminium</td>
<td>5</td>
<td>1.83</td>
<td>29.32</td>
</tr>
<tr>
<td>5</td>
<td>Cotton yarn</td>
<td>10</td>
<td>1.47</td>
<td>12.73</td>
</tr>
<tr>
<td>6</td>
<td>Electric wires &amp; Cables</td>
<td>4</td>
<td>1.62</td>
<td>18.20</td>
</tr>
<tr>
<td>7</td>
<td>Patent or proprietary media</td>
<td>4</td>
<td>1.22</td>
<td>17.43</td>
</tr>
<tr>
<td>8</td>
<td>Tea</td>
<td>5</td>
<td>0.98</td>
<td>13.17</td>
</tr>
<tr>
<td>9</td>
<td>Refrigerators &amp; Air conditioners</td>
<td>12</td>
<td>0.94</td>
<td>21.01</td>
</tr>
<tr>
<td>10</td>
<td>Jute manufacturers</td>
<td>3</td>
<td></td>
<td>14.22</td>
</tr>
<tr>
<td>11</td>
<td>Matches</td>
<td>2</td>
<td>0.67</td>
<td>5.66</td>
</tr>
<tr>
<td>12</td>
<td>Tyres &amp; Tubes</td>
<td>6</td>
<td>4.05</td>
<td>16.40</td>
</tr>
<tr>
<td>13</td>
<td>Refined Diesel Oil</td>
<td>3</td>
<td>4.42</td>
<td>10.32</td>
</tr>
<tr>
<td>14</td>
<td>Sugar</td>
<td>3</td>
<td>4.03</td>
<td>10.48</td>
</tr>
<tr>
<td>15</td>
<td>Motor vehicles</td>
<td>6</td>
<td>2.92</td>
<td>15.61</td>
</tr>
<tr>
<td>16</td>
<td>Other petroleum products</td>
<td>7</td>
<td>3.01</td>
<td>41.51</td>
</tr>
<tr>
<td>17</td>
<td>Paper &amp; Paper boards</td>
<td>10</td>
<td>2.61</td>
<td>14.64</td>
</tr>
<tr>
<td>18</td>
<td>Cotton fabrics</td>
<td>11</td>
<td>2.08</td>
<td>4.44</td>
</tr>
<tr>
<td>19</td>
<td>Cement</td>
<td>6</td>
<td>2.09</td>
<td>14.93</td>
</tr>
<tr>
<td>20</td>
<td>Kerosene</td>
<td>4</td>
<td>2.08</td>
<td>20.29</td>
</tr>
<tr>
<td>21</td>
<td>Plastics</td>
<td>11</td>
<td>1.00</td>
<td>25.00</td>
</tr>
<tr>
<td>22</td>
<td>Man-made fabrics</td>
<td>9</td>
<td>1.46</td>
<td>23.15</td>
</tr>
<tr>
<td>23</td>
<td>Man-made fibres and yarn</td>
<td>13</td>
<td>6.66</td>
<td>23.62 acep</td>
</tr>
<tr>
<td>24</td>
<td>All other goods</td>
<td>4</td>
<td>6.37</td>
<td>67.45 noty</td>
</tr>
<tr>
<td>25</td>
<td>Biris</td>
<td>2</td>
<td>1.28</td>
<td>30.85</td>
</tr>
<tr>
<td>26</td>
<td>Non-cellulosic spun yarn</td>
<td>3</td>
<td>1.25</td>
<td>20.97</td>
</tr>
</tbody>
</table>
It is seen that the average frequency of rate changes during the period 1960-69 to 1982-83 was 7 and that the range was between 2 and 12. It is also evident that the commodities having a high growth profile, as seen from the compounded growth rate, also have above average rate changes. But in the case of cotton fabrics and cotton yarn, this observation does not hold good.

2.12 While examining the tax structure scenario of pre-independence period, it was indicated that out of the 16 taxable commodities, only one commodity was having ad valorem rate. During the first decade since independence, 21 commodities out of a total number of 26 were still having specific rates. But the tax structure analysis in terms of ad valorem and specific rates given in Table 2.3 clearly indicates a reversal of the roles as far as the number of taxable goods are concerned.

Table 2.3

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of commodities having specific rates</th>
<th>Gross Revenue as % of total excise revenue from specific rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981-82</td>
<td>11</td>
<td>46.36</td>
</tr>
<tr>
<td>1982-83</td>
<td>12</td>
<td>46.17</td>
</tr>
<tr>
<td>1983-84</td>
<td>13</td>
<td>50.37</td>
</tr>
</tbody>
</table>

However, in terms of revenue, it is seen that specific rates and ad valorem rates now contribute almost equal percentage to the total revenue if the specific and ad valorem components of combined rates are also disaggregated. The details of the break up of all the commodities in terms of specific and
ad valorem and specific-cum-ad valorem rates are given in Appendix A49.

2.13 The important findings that emerge from the review of the evolution of excise duties can be summarised as follows:

1) The extension of the coverage of excise duties has not been carried out in any systematic or selective manner. Neither has there been any consideration for the revenue potential or the nature of a commodity before imposing excise duties.

2) Although in the course of the evolution of excise duties there has been a declining trend in the number of commodities having specific rates, the revenue from such commodities continue to be dominant. This shows that the tax coverage has been extended without making the tax structure responsive to income and price changes. Hence, additional resources have mainly been mobilised through the revision of tax rates as there is very little scope for the automatic growth of excise revenue.

3) Analysis of tax structure changes in terms of the nature of commodities indicate that there has been an increasing tendency since independence to bring inputs and capital goods within the ambit of excise levy. This trend is perhaps responsible for the cascading effect of excise duties and low responsiveness of revenue as the value added at the manufacturing stage escapes taxation when there is no duty incidence or only concessional rates for the finitixx finished products made out of dutiable inputs.

4) Changes in rates of duty have been more frequent since independence particularly in the case of consumer
Goods. It is also seen that most of the commodities which yield substantial revenue have also been undergoing more frequent changes in the rates of duty compared to low revenue yielding articles.

5) The differential rate structure is more pronounced in the case of consumer goods which is probably the outcome of the efforts to make the tax structure more progressive.

6) The overall picture that emerge from the foregoing review clearly points out that the existing tax structure has not been formulated on a rational basis and that drastic changes are required to make it more efficient and responsive to the revenue requirements of the country. The structural complexities are examined in detail in the succeeding chapter with a view to ascertain its possible effects on revenue and tax compliance.