PART - III
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CHAPTER V

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duties on alcoholic liquors, in India it is widely asserted that excise duties have been levied more with a view to restricting consumption of intoxicants, than to raising revenues.

Our Constitution, states that, the state shall endeavour to bring about prohibition and therefore, prohibition has been an objective of state policy; yet it cannot be said that the states are moving in the direction of prohibition. Different states have implemented prohibition policy differently and therefore, the yield of state excises also varies greatly. Majority of the states have lifted prohibition policy mainly for revenue considerations and administrative difficulties. However, this policy has been followed consistently in Gujarat while in Tamil Nadu it was imposed intermittently, due to the diverse policies of the political parties. In all the states, the sales tax fetches the highest revenue and state excise duties are the second important sources of commodity taxation. In absolute terms revenue from this source has increased substantially due to gradual relaxation of prohibition policy, pursued by the states.

5.2. EXCISE POLICY IN ANDHRA PRADESH

State excise in Andhra Pradesh is of special significance in terms of revenue as well as administrative innovations. The territories which constitute Andhra Pradesh today comprise the Andhra region which till 1953 was a part of Madras State, and the Telangana region which was part of former Hyderabad State till 1956. In accordance with the policy of the Indian National Congress, the Government of Madras, from 1937, began introducing prohibition in the Madras province by stages. At the
time of the formation of Andhra state in 1953, prohibition was in operation in all its districts and the same position continued till 1968. In former Hyderabad State there was no attempt at prohibition and the excise taxes on alcoholic items formed a very important source of revenue. After the formation of Andhra Pradesh, a mixed policy was followed. Prohibition continued in Andhra region till 1969, which at present comprises 62.31 per cent of the total population and 58.27 percent of the total area of the state of Andhra Pradesh and the maximum revenue derived from state excise was only in Telangana, the other region in Andhra Pradesh. The Andhra Pradesh (Telangana area) Abkari Act 1316F was administered in the Telangana region till 29-8-1968. The Madras Abkari Act 1886 was in force in Andhra area till the lifting of prohibition on 31-10-1969. The Andhra Pradesh Excise Act 1968, enacted for the purpose of providing an integrated legislation applicable to the entire state of Andhra Pradesh, came into force on 30-8-1968 in Telangana area in the first instance and was extended to Andhra area from 1-11-1969.

State excise duties play a vital role in the economy of our country and particularly so in a state like Andhra Pradesh, which has been obtaining the highest amount from this source next to commercial taxes. Since the lifting of partial prohibition in the Andhra region of this state, it has been a regular source of revenue to the Government. State excise revenue has been realised from the intoxicating items like country spirit (arrack), country fermented liquor (toddy), Indian made Foreign liquor (IMFL), malt liquor (beer), commercial and denatured spirits and medicated wines, medicinal and toilet preparations containing
alcohol, opium etc., opium, hemp as they are and other drugs. Out of all the state excise duty commodities country spirit, country fermented liquor and Indian made Foreign liquor including beer contributes 90 to 95 per cent of revenue to total state excise revenue and country spirit alone contributes 80 to 85 per cent of state excise revenue. The trend of state excise revenue showed that sustained increase both in absolute and relative terms. From 1957-58 to 1968-69 it increased from Rs.6.33 crores to Rs.18.02 crores.

After lifting of prohibition in Andhra area, the revenue from state excise duties has increased rapidly. In 1970-71, it was only Rs.35.47 crores. It increased to 564.64 crores in 1988-89 i.e., by around 16 times. This phenomenal increase in state excise revenue has come about, due to an abnormal increase in consumption of alcoholic liquors, enhancement of minimum guaranteed quantity of arrack, competitive bidding in auctions for arrack and today shops, rapid changes in rates of duties, licence fees and auction policies of the government. In addition, efficiency in the collection of excise revenue by state excise administration through vigorous enforcement of Excise Laws and Rules have also caused increase in the revenue.

5.3 COUNTRY SPIRIT (ARRACK)

The Government has complete monopoly in supply of country spirit (arrack) to the licensees. There are two government distilleries in Telangana area, one at Narayanguda and the other at Kamareddy for the manufacture of arrack. Due to the prohibition policy, there was no production and sale of arrack in Andhra area till 1969. Since then,
manufacturing of arrack was given to the private distilleries. The supply and distribution of arrack to the licensees of arrack shops is done directly by the excise department.

5.3.1 Arrack Bottling Scheme:

In order to supply pure, clean and hygienic arrack to the consumers in sealed bottles and plastic sachets, arrack bottling scheme was introduced in 1987. It has been a challenging task to curb the illicit distillation of arrack in the state. With the growing demand of arrack in sachets rather than in bottles, the supply of arrack in sachets has increased. Instances have been reported where illicit arrack has been filled in sachets and sold as government arrack by the bootleggers. It was also found that even in bottling units, some of the excise officials were engaged in illegal sacheting of arrack. These irregularities by the licensees as well as excise officials have led to a decrease in the government revenue. Unless strict measures are taken the objective of this scheme, will be watered down.

The successful implementation of this scheme can be achieved by:

(a) strict vigilance on inflow and outflow of arrack in the bottling units,

(b) daily verification of the stock stored in the units,

(c) restricting the licensees to lift their MGQ from government arrack depots only, and at convenient places, so that there is at least one for two mandals,
(d) opening of more government arrack depots for quickening the lifting of MGQ by the licensees and to curb the illicit sale of arrack by bootleggers.

The selling price of arrack is different from mandal to mandal depending upon the fixation of rentals. If the price fixed is uniform in all the districts and within the district, illicit sale of arrack can be detected and the bootleggers can be arrested. Further, it may be noted that at present the manufacturers are required to indicate the maximum retail price on different commodities. Such system may also be followed in supplying arrack in sachets and bottles for effective control of illicit arrack.

5.3.2 Better system for auction:

In the previous system of grouping (Taluq wise) of arrack shops, the contractors dominated and formed syndicates for monopolising the contract, resulting in short fall in the bidding amount and there by reducing the government revenue. The small contractors were not able to compete with the syndicate as they were not in a position to deposit huge amounts and surety required for maintaining group wise (Taluq wise) arrack shops. In the system of individual licensing of arrack shops in vogue during 1988-1990, large amount of arrears compared to the previous years were pending. This was due to speculative bidding per shop by persons who did not know the business. They failed as they were not in a position to pay the privilege fee (rentals) and wound up their business before the expiry period. It was also found that some of the licensees were benamidars captured licences without
any property. If these licensees failed to pay the monthly privilege fee or issue price, the Government could not recover any arrears from the defaulters and so had to write-off the amounts. This causes a huge loss to the Government. It must also be stated that the present strength of excise staff is insufficient for collection of excise revenue from each and every licensee of an arrack shop. In view of these factors the present Mandal-wise auctioning of arrack shops is suitable and can be continued with the following precautionary measures:

(a) A duly sworn in affidavit indicating the property which he owns, the value of the property and his share in it before the auction starts should be insisted upon. He should also state whether he had been paying any land revenue and or income tax during the last three years, and indicate the gross income and net income for purpose of taxation. In the case of lands he should give details and extracts or certificates from the village officers, that would prevent persons with no means of livelihood and no-credit worthiness from making a bid at the auctions.

(b) Insistence on payment of 5% of the annual rental as earnest money and one month’s rental on the day of the auction immediately after the acceptance of the tender is necessary.

(c) The auction purchaser should also deposit two months rental in cash or in fixed deposit certificates obtained from Scheduled Bank before the commencement of excise year.

(d) A solvency certificate from Mandal Revenue Officer concerned, covering an amount of at least one month’s rental should be insisted upon.
In addition, the auctioning authority should also strictly implement the provisions of the Act and Rules at the time of disposal of arrack shops.

A system of providing for a large number of licenced retail shops to sell government arrack on commission basis by eliminating the middle man, namely the arrack contractors is not workable under the present circumstances. The present system of rentals by auction is perhaps the best system to keep the competition open and free, as chances of favouritism to liquor dealers are slender because of the open system of bidding which ensures maximum excise revenue to Government.

5.3.3 Minimum Guaranteed Quantity:

Minimum Guaranteed Quantity of arrack for a year required to be purchased from Government and sold by the licensee, is fixed for each shop on the basis of the consumption in previous years. With the growing demand of arrack every year, the total MGQ also increased accordingly. For some years, the actual off-take of arrack was over and above the MGQ fixed. In 1986-87, MGQ of arrack was fixed at 894 lakh litres, but actual quantity of arrack lifted was 947.51 lakh litres. In 1988-89 also, the arrack lifted was over and above the MGQ fixed. It indicates the increased consumption of arrack more and above the estimated MGQ of arrack in the state. In deciding upon the MGQ for different shops, it is desirable to take the actual sale of arrack in each shop in the preceding two years be taken into consideration. That would minimise the illicit sale of arrack and thereby increased the government revenue. However, this system dispensed from 1990-91 excise
year and rental system has been re-introduced.

The present auctioning of arrack shops on rental basis may be continued. In the licensing system, the tenders were offered in terms of MGQ lifted by the licensee, and this led to competitive bidding over and above the actual demand of arrack, resulting in the re-auction of arrack shops and accumulation of arrears due to non-lifting of MGQ, leading to the government revenue has fallen. The rental should be fixed after detailed investigation on previous year MGQ of each shop and any increase or decrease in actual lifting of MGQ.

5.3.4. Arrack shops in Tribal areas:

Tribals are allowed to prepare liquor according to traditional practice for bonafide personal consumption. The right to brewing for personal consumption by a tribal is not extended to sale. The shops in the agency areas were opened mainly to cater to the needs of the plain people (non-tribals) residing in the tribal areas. It was noticed that these shops lead to benami contracts and loss of revenue. To weed out the benamidars, the Government took a decision to auction the arrack shops in scheduled areas having tribal population of less than 50% from 1982-83. This resulted in more revenue to Government and elimination of the middle men who enjoy the benefits in the name of the tribals.

5.3.5. Issue Price and Rentals:

The price of arrack per bulk litre is payable by the licensee of an arrack shop besides the rentals of that shop. It has been revised from time to time due to increase in the cost price of arrack. In 1968,
the rate of issue price was only Rs.4.07. It increased to Rs.10.50 in 1990, by around 157.98 per cent during a period of 22 years.

Rental is neither a tax nor an excise duty, but the consideration for the agreement for grant of privilege by the Government. Rentals occupy a very important place in state excise revenue. About 70 per cent of excise revenue has been realised only from rentals of arrack and toddy shops every year. In 1969-70, the rentals realised from arrack was Rs.8.01 crores and increased to Rs.370.23 crores in 1988-89, increased by around 45 times (4522 per cent) during this period. It was found in some cases, that the auctioning authority did not follow prescribed procedure in fixation of actual rentals for the arrack shops leading to loss of revenue to the Government. The strict implementation of the guidelines issued every year by the government would be much helpful in fixation of actual rentals.

5.3.6. Revenue significance:

Among the various commodities available for state excise revenue, country spirit (arrack) contributes the highest revenue in Andhra Pradesh forming about 80 to 85 per cent of total excise revenue. It is evident from the fact that while in 1969-70 Rs.1.99 crores was realised from country spirit and to Rs.474.81 crores in 1988-89. The percentage contribution also increased to 84.09 per cent from 7.85 per cent during the same period. This sustained increase in revenue from this commodity is the result of increases in the quantity of consumption, rate of excise duty, issue price and shop rentals. The vigorous enforcement of excise laws would also have caused an increase in the revenue. Percentage of
contribution of country spirit to total excise revenue is the highest in Andhra Pradesh compared to all other states in India. During 1981-82 the highest amount realised from this account in Andhra Pradesh was Rs.150.50 crores and its contribution to total excise revenue was 77.42 per cent. In a majority of the states this head of account contributes over 50 per cent of state excise revenue indicating that it is the major source of state excise in majority of the states.

As there was no sale of arrack in Andhra area till 1st November, 1969, the revenue realised from this account was only from Telangana. Since the lifting of prohibition in Andhra, the revenue from this account has increased. In the initial period, about 60.33 per cent of country spirit revenue was derived from Andhra area, whereas in Telangana it contributes 39.67 per cent. It reveals that more demand for arrack in Andhra than in Telangana. Though this percentage share has increased to 41.27 per cent in Telangana, higher contribution has been realised from Andhra in 1988-89 also. In East Godavari District the most populous among the districts in the state, large amount of revenue being realised under this head in the state. In Telangana area Khammam District realised the highest amount and also the total MGQ was the highest in the state.

5.4. COUNTRY FERMENTED LIQUOR (TODDY)

Till the lifting of prohibition, country fermented liquor formed a very significant role in the excise revenue. Since the lifting of prohibition, the revenue significance of this commodity has declined due to the vast demand of country liquor and Indian made Foreign liquor and beer.
Toddy shops have been leased as under the Andhra Pradesh (lease of right to sell liquor in retail) Rules, 1969. Every toddy shop is allotted a certain number of trees, based on the figures relating to consumption in the previous year. The Government introduced special scheme for assignment of toddy shops to Tappers Co-operative Societies (T.C.Ss) and Tree for Tapper Scheme (T.F.T). For the benefit of the tappers community, certain concessions are also sanctioned to TCSs and TFT scheme in terms of trees allotted and in payment of rentals.

5.4.1. Allotment of toddy shops:

The present system of auctioning toddy shops in Municipal Corporations, Selection Grade, Special Grade, and Grade I Municipalities including Industrial project and notified areas, shops allotted to Tappers Co-operative Societies in villages, Towns, Grade III and grade II Municipalities, and shops confined to Tree for Tapper scheme only in villages and Grade III Municipalities may be continued. As the TCSs and TFT scheme are provided to the benefit of the actual tappers, these shops should be allotted to the actual tappers only. Tapping test should be conducted at the time of allotment of the shops to TCSs and TFT scheme. It is reported that the schemes meant for the benefit of the tappers in the TCSs are being misused by non tappers who were becoming bogus members in the societies. Such bogus memberships can be weeded out by the regular verification. For encouraging the tappers community, training centres may be started to enable the tappers to learn the art of tapping trees and to know the actual benefits meant for them.
5.4.2. Revenue significance:

Till the lifting of prohibition in Andhra, higher amount was realised from Telangana in terms of sendhi shops, whereas in Andhra it was realised from sweet toddy (Neera). Since the formation of the state, higher percentage of revenue has been realised from Telangana, due to large number of enumerated trees and large population accustomed to drink that commodity in this area. In Telangana, Hyderabad accounted for the highest amount from this commodity, whereas in Andhra, Anantapur forms the highest percentage.

5.5 INDIAN MADE FOREIGN LIQUOR (I.M.F.L.)

Foreign liquors like Whisky, Brandy, Gin, Rum and Beer are also manufactured and imported into the state. Prior to the enactment of the Excise Act, Hyderabad made foreign liquor was produced in the state. The liquor shops were auctioned in the districts of Telangana area upto 1969 expect on twin cities of Hyderabad and Secunderabad where the licences were being issued on fixed fee basis from 1964-65. Since the lifting of prohibition, licences have been issued to the Distilleries and Breweries for manufacturing of Indian made Foreign liquor and Beer. At present there are 20 distilleries and 3 breweries functioning in the state.

5.5.1 Licensing System:

The entire Indian made Foreign liquor is organised through a system of distributor, wholesale, retail sellers. The annual fee for the sale of Indian made Foreign liquor is levied on the basis of the
population of the place in which the licensed premises are actually located.

For licensing Indian made Foreign liquor shops, the present system of Distributor-wholesale-retail licences can be continued. As the licence fee has been imposed on the basis of population in which the shop is located, some irregularities were found in the adoption of actual population figures. The adoption of block period of 5 years from 1987-88 for issuing licences may be continued to check the evasion of actual licence fee. Special care should be taken in following the prescribed procedure in issuing these licences.

It was noticed that the retail (FL 24) licensees have been allowed the consumption of liquor in the licensed premises or adjacent to the shop premises, though it is an 'off licence' (restricted consumption in the premises). This has adversely affected the business of the Bar owners and thereby decreased the government revenue in terms of licence fee. Frequent raids conducted by the regular as well as the enforcement staff would minimise these irregularities.

5.5.2 Excise duty:

The highest rate of excise duty on Indian made Foreign liquor has been imposed in Andhra Pradesh compared to the neighbouring states like Tamil Nadu, Kerala, Karnataka and Union Territory of Pondicherry. This gives rise to smuggling and also attempts to evade excise duty showing that the consignment had been sold to a dealer in adjoining state; but really consumed in Andhra Pradesh. Therefore, the excise duty on IMFL in Andhra Pradesh should immediately be brought down to
an average of adjoining states. It should be Rs.30 per P.L. instead of the present rate of excise duty Rs.45 per P.L.

5.6 OPIUM

In accordance with the policy laid down by the Government of India to stop the public sale of opium, the most injurious drug of addiction which is both taken orally and smoked, the opium shops previously auctioned by the excise department, were discontinued and opium was issued to addicts on permits on the recommendation of medical authorities. After the formation of the state in 1956, and with the policy of Government of India, revenue from opium has considerably declined and is negligible. The use of Ganja and Bhang has been totally prohibited in the state from 31st March, 1959.

5.7 MEDICINAL AND TOILET PREPARATIONS

The levy of excise duty on medicinal and toilet preparations containing alcohol or any substances of intoxicant are union subjects. The duty levied on such preparations is collected and appropriated by the state governments through the state excise department. For the purpose of levy of excise duty, medicinal preparations have been classified as restricted and unrestricted preparations i.e., those are capable of being consumed as alcoholic beverages and other which cannot be so consumed. The rate of excise duty on restricted preparations is higher than in the unrestricted ones. For proper and effective control of the M & T.P.units, officers of the cadre of Inspector and Sub-Inspectors are in-charge of individual units or group
of units. There are four categories of licences issued for the manufacture of medicinal and toilet preparations and fee collected at different rates. The medicinal and toilet preparation units demanded alcohol for their requirement and revenue derived every year accordingly.

5.8 COMMERCIAL AND DENATURED SPIRIT

Denatured spirit is plain spirit which has been rendered effectively and permanently unfit for human consumption by adding denaturants used only for non-potable purposes such as, for burning, lighting and in other manufacturing processes. Bulk of the industrial alcohol is subjected to excise duty at a low rate on rectified spirit. The concessional rate of excise duty applies only to such industries where the end product does not contain alcohol. There are five different categories of licences issued in respect of denatured spirit according to its use.

5.9 FINES AND CONFISCATIONS

Finally, the revenues of the state excise duties also include receipts from fines, confiscations and other receipts. Illegal production, transport, export, import and sale of any excisable article attracts fines and confiscations under the excise rules.

5.10 EXCISE CRIME

The crimes which the department has to tackle are illicit distillation of liquor, adulteration of liquor, adulteration of toddy with
chioral hydrate, cases of evasion of duty by IML producing units, illicit tapping of toddy, manufacture of spurious liquors, cultivation of Ganja and smuggling of IMFL from neighbouring states. Illicit distillation and illicit tapping of excise trees were the major excise crime in Telangana area of the state. As the prohibition Act was in force in Andhra area till 31st October, 1969, illicit distillation was rampant in almost all the districts. Even after the advent of licensed shops, the illicit distilleries did not disappear and they became a problem for the excise administration and to the licensees. However, as a result of systematic raids conducted by the regular staff and flying squads the crime could be contained.

5.11 ARREARS

A study of excise arrears shows that some portion of excise demand is outstanding in every year due to irregularities in collection of excise revenue and stay orders of courts etc., In 1970-71 the outstanding of excise demand was Rs.310.00 lakhs, in 1975-76 Rs.0.45 lakhs, in 1980-81 Rs.97.84 lakhs in 1986-87 Rs. 21.36 lakhs. Meetings conducted by the Commissioner of Excise with all the Deputy Commissioners and Excise Superintendents to realise the old arrears to the maximum extent and the ways and means therefore should be thoroughly explored. As the arrears fall under various categories i.e., Revenue Recovery Act, stay orders by courts, Government and Revenue officials, write-off proposals, collectable from the persons residing in other districts and other states, amount adjustable from securities, it is a long process to recover the arrears from the above heads. The
regular current excise staff feels that they are not in a position to bestow attention on the collection of old arrears as they are quite busy with the present collection of current excise demand.

It is recommended that the Government should taking into consideration the whole work load of collection of current demand and past arrears in different districts, consider the adjustment of staff and/or creation of additional staff appropriate to the work load. This will help to control the evasion of excise duty and the collection of arrears in the stipulated time.

Out of the various stages of excise arrears write-off proposals would severely affect the government revenue. Tenderers without any property participate in the auction and the auctioning authorities violate the prescribed rules and these irregularities result in the write-off proposals. The insistence of affidavits containing the properties with non-encumbrance certificate at the time of auction, and strict implementation of the auction rules would help to minimise the write-off proposals.

5.12 COST OF COLLECTION

The expenditure of state excise department shows that it was increased in absolute terms over a period of time and more or less constant in relation to excise revenue. The expenditure of this department was Rs.1.79 crores in 1970-71 increased to Rs. 50.20 crores in 1988-89. This increase was mainly due to increase in the rates of purchase of liquor and spirits, establishment of arrack bottling units and enhancement in the rates of dearness and other allowances to the
staff. The actual cost involved in collection of excise revenue is on direction and administration. Though the excise department is contributing to a great extent to the exchequer, the cost of collection increasing at almost the same except the marginal increase to meet the extra expenditure on account of revision of rates of dearness allowance and other allowances. Actual cost involved on direction and administration of the various offices such as Head Quarters, Regional offices, District offices and Training college.

5.13 NEED FOR STRENGTHENING THE DEPARTMENT

There is need to provide additional staff in the department, transport facility, phones and infrastructure facilities at the Circle and Range level for efficient administration. Improving the pay scales of the officers of the excise department to make them comparable with the scales of the officers of the other departments and especially the police department charged with similar duties, and providing for regular and sufficient uniform allowance to the officers upto the level of Circle Inspectors of Excise, would make the excise officials happy and would boost up their morale. Promotions from the cadre of Sub-Inspectors should not always be based merely as matter of course on seniority. In order to ensure promotions on merit and ability, objective examinations may be conducted. With adequate knowledge of law, training in the use of arms and scientific investigation of offences and enabling them to undergo training comparable with police officers, would increase their efficiency. Periodical refresher courses atleast once in five years for officers up to the cadre of Excise Superintendents would also help to
improve the efficiency. Strengthening and streamlining of the department would ensure objective and effective checks and inspection of toddy and liquor shops and would facilitate in locating the sources of illicit distillation of arrack and adulteration of arrack and toddy. Self restrictions should be imposed while discussing policy matters with the line agency lest they should get confused in the goal expected in the implementation of the policy.

An excise Intelligence Bureau charged with the task of locating the areas prone to excise offences and disseminating such information to the local excise officials should be created. The Bureau should also examine the cases of adequacy of MGQ fixed, by surprise visits to the authorised shops in the state.

One of the important aspects in the administration of a taxation, is to lay down adequate rules and regulations in the form of a manual as reference document and also for being observed by the departmental staff and trade alike. Any distillery manual would generally contain a detailed account of the functioning of the distillery, how the process of distillation is carried out, explanation of the technical terms, the method of the use of hydrometers, the reading of the Syke's tables, determination of the proof strength etc. Such manuals must be revised every two years without fail, incorporating all the amendments upto the date of publication.

The Constitution of India more than four decades ago, laid down prohibition as a Directive Principle of state policy. the Government of Andhra Pradesh irrespective of the party in power has not in the past two decades, shown any inclination for implementation of that Directive