



1.1 Introduction

In a duty credit scheme, the duty/tax paid on items used as inputs, input services or capital goods is taken as a credit. The credit availed in this manner is thereafter used for paying duties or other taxes on the final products. This ensures that the tax on the inputs is not paid twice and there is no cascading in the form of tax on an earlier tax paid. With a view to eliminate the cascading effect of excise duties, a duty credit scheme called 'MODVAT Scheme' was introduced from March 1986 enabling manufacturers to avail credit of duty paid on inputs (from the year 1986) and capital goods (from the year 1994) and to utilise such credit for payment of duty on the final products. This scheme was replaced by the Cenvat Credit scheme along with cenvat Rules from 1 April 2000. These rules were later promulgated as 'Cenvat Credit Rules, 2001' effective from 1 July 2001. In the course of further revision, the rules were replaced by Cenvat Credit Rules, 2002 with effect from 1 March 2002. The facility of credit was extended to service providers with effect from 16 August 2002 vide Service Tax Credit Rules, 2002. With the integration of goods and services with effect from 10 September 2004, the earlier Cenvat Credit Rules, 2002 and Service Tax Credit Rules, 2002 were merged and a new set of Cenvat Credit Rules, 2004 was introduced so that credit of input duties/tax can be extended across goods and services.

1.2 Audit objectives

The review was conducted to: -

- (i) Identify ambiguities and shortcomings in rules and provisions which need to be addressed to improve the regulation of availing and utilisation of cenvat credit, and
- (ii) Identify instances of deviations and non compliance with rules and regulations resulting in significant loss of revenue.

1.3 Scope of audit

Out of 12,119 central excise units paying central excise duty exceeding ₹ one crore and 1,159¹ service tax units paying tax exceeding ₹ 50 lakh during 2007-08 in 103 commissionerates of central excise and service tax, 1,116 units (995 central excise and 121 service tax) in 101 commissionerates of central excise and service tax were selected and assessment records for the period from 2005-06 to 2007-08 were test checked.

¹ This does not include service tax units of 15 commissionerates (Mumbai I,II,III,IV,V, Pune I,II,III, Nasik, Thane I, II, Belapur, Raigarh, Goa & Aurangabad)

1.4 Past audit findings

We reported misuse of cenvat credit involving revenue of ₹ 574.93 crore in audit reports for the years 2005-06, 2006-07 and 2007-08. The year-wise revenue implication covered by the reports, amount accepted and recovery effected are exhibited in the following table: -

Table no. 1:

(Amounts in crore of rupees)

Year of audit report		Paragraphs included		Paragraphs accepted		Recovery effected
		No.	Amount	No.	Amount	
2005-06	CE	51	64.63	36	30.80	7.65
	ST	7	4.61	5	3.09	0.21
2006-07	CE	66	111.88	49	21.92	9.95
	ST	38	28.72	34	19.80	3.39
2007-08	CE	78	187.54	53	60.15	31.30
	ST	71	177.55	43	14.56	4.71
Total		311	574.93	220	150.32	57.21

1.5 Summary of audit findings

We observed that a huge accumulation of cenvat credit had taken place with manufacturers and consequently major part of central excise duty was being paid from cenvat credit.

We found shortcomings in the rules and regulations with a revenue implication in the range of ₹ 190.61 crore. We found incorrectly accumulated cenvat credit of ₹ 2143.18 crore and incorrectly utilised credit of ₹ 257.31 crore. The department had accepted (till December 2010) audit observations involving revenue of ₹ 163.01 crore and reported recovery of ₹ 33.77 crore. Our observations are detailed in the next two chapters.