

CHAPTER – III
STATE EXCISE DEPARTMENT

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3.1 Tax Administration

The State Excise Department is responsible for collection of revenue under Assam Excise Act, 1910 (as adapted by Meghalaya), the Assam Excise Rules, 1945 (as adapted), the Assam Distillery Rules, 1945 (as adapted) and the Assam Bonded Warehouses Rules, 1965 (as adapted) and enforcement of Excise laws. Excise revenue comes from *ad valorem* levy, establishment charges, various kinds of licence fees on foreign liquor/beer, country spirit, rectified spirit, *etc.* Further, import pass fee, export pass fee, transport pass fee, under bond pass fee, brand and label registration/renewal fee generate revenue for the Government exchequer.

The Additional Chief Secretary to the Government of Meghalaya, ERTS Department is in overall charge of the State Excise Department at the Government level. The Commissioner of Excise (CE) is the administrative head of the Department. He is assisted by a Joint Commissioner of Excise and Deputy/Assistant Commissioners of Excise (DCEs/ACEs). At the district level, the Superintendents of Excise (SEs) have been entrusted with the work of levy of excise duties and other dues from the licencees such as bonded warehouses, bottling plants, distilleries and retailer shops. The collection of tax is governed by the provisions of the Assam Excise Act, 1910 (as adapted by Meghalaya), the Assam Excise Rules, 1945 (as adapted), the Assam Distillery Rules, 1945 (as adapted) and the Assam Bonded Warehouses Rules, 1965 (as adapted).

3.2 Results of Audit

Test check of the records of eight units during 2019-20 revealed non-realisation of duties, fees, *etc.*, involving ₹ 51.49 crore in 50 cases which fall under the following categories:

Table 3.2.1

(₹ in crore)			
Sl. No.	Category	Number of cases	Amount
1.	Non/Short realisation of duties <i>etc.</i>	28	16.13
2.	Loss of revenue	11	29.36
3.	Other irregularities	11	6.00
Total		50	51.49

During the course of the year, the Department accepted loss of revenue and other deficiencies to the tune of ₹ 35.62 crore in 39 cases. They did not furnish reply in 11 cases. An amount of ₹ 10.80 crore was realised in 27 cases during the year 2019-20.

An illustrative case having financial impact of ₹ 57.83 crore in terms of loss of excise duty is discussed in **paragraph 3.3**.

3.3 Loss of excise duty on alcohol and spirit

Failure of the Excise Department to notify norms for production of Indian Made Foreign Liquor (IMFL) from ENA led to shortfall in yield of IMFL during production and resulted to a loss of revenue to the tune of ₹ 57.83 crore.

The Assam Distillery Rules, 1945 (as adapted by the Government of Meghalaya) do not provide any norms for production of Indian Made Foreign Liquor (IMFL) from Extra Neutral Alcohol (ENA)¹.

Mention was made in paragraph 4.4.8.5 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2014 (Revenue Sector) – Government of Meghalaya regarding loss of revenue of ₹ 10.15 crore in the form of excise duty and VAT due to absence of any norms for production of IMFL from ENA in the State. Audit had therefore recommended to immediately notify the norms for production to be utilised as a benchmark by all distilleries/bottling plants to prevent such cases of avoidable short production leading to loss of revenue to the State.

Audit noticed that the State Government is yet to prepare a technical manual of its own and prescribe norms for production of IMFL from ENA till the date of Audit (June 2020). In the absence of any prescribed norms by the State Government, Audit has referred to the norms prevailing in the bottling plants for the purpose of calculation. As per the norms reported by the individual bottling plants of the State, 4 Bulk Litre (BL), 3.85 BL and 3.84 BL of ENA is required for production of one case of 750 ml, 375 ml and 180 ml of IMFL respectively² which translates into an average of 3.90 BL per case of IMFL. In Meghalaya there is **one** distillery, **one** brewery and **five** bottling plants. Additionally, there are 40 bonded warehouses which are licensed to procure imported alcohol for distribution and sale within the state.

Audit of records (June 2020) of one distillery³ and five bottling plants⁴ for the period from 2015-16 to 2019-20 to assess the correctness of excise duty collected, based on data relating to production and stock, revealed that out of five bottling plants in Meghalaya, four⁵ bottling plants had utilised a total of 3,58,34,527.60 BL of ENA between 2015-16 to 2019-20. After taking into account of 1% wastage norms⁶ (0.5% for blending and 0.5% for racking), the bottling plants were expected to produce 90,96,457.00⁷ cases of IMFL. However, the four bottling plants disclosed production

¹ ENA is the primary raw material for making alcoholic beverages such as whisky, vodka, gin, cane, liqueurs, and alcoholic fruit beverages. It typically contains over 95 per cent alcohol by volume. It is derived from different sources — sugarcane molasses and grains.

² One case of 750ml, 375ml and 180ml of IMFL contains 12 bottles, 24 bottles and 48 bottles respectively.

³ M/s CMJ Breweries Pvt. Ltd.

⁴ M/s CMJ Breweries Pvt. Ltd (Bottling Unit), M/s North East Bottling Plant, M/s MDH Beverages Bottling Plant, M/s Marwet Bottling Plant and M/s Oaken Gold Bottling Plant.

⁵ There was no shortfall in production by M/s MDH Beverages Bottling Plant, hence only four bottling plants have been taken into consideration for loss of revenue.

⁶ Rule 33 of N.E. Region Excise Manual (Instructions Relating to Liquor).

⁷ $\{3,58,34,527.60 - (3,58,34,527.60 \times 1\%)\} \div 3.90 = 90,96,457.00$ cases.

of 87,17,511 cases of IMFL. This resulted in short production of IMFL by 3,78,946.00 cases. Audit further observed that these bottling plants had failed to maintain any records of ENA procured and consumed, nor were such reports submitted to the Excise authorities.

Audit further observed that the rate of Excise duty notified by the State Excise Department during the review period was fixed at a uniform rate of ₹ 810 per case. Whereas the rate of VAT (40%) fixed by the Taxation Department varies from brand to brand ranging from ₹ 716.00 to ₹ 787.59 per case.

Due to failure of the State Government to notify norms for production of IMFL from ENA, despite the lacuna having been pointed out in Para 4.4.8.5 of the Audit Report for the year ended 31 March 2014, has resulted in shortfall in yield of 3,78,946.00 cases during production, involving a loss of revenue to the tune of ₹ 57.83 crore in the form of excise duty (₹ 30.69⁸ crore) and VAT (₹ 27.13⁹ crore) over a period of five years under scrutiny (details in **Appendix – 3.3.1**).

Thus, failure of the State Government to notify norms for production of IMFL from ENA and norms for production of ENA from raw materials (grains) has resulted in a loss of revenue amounting to ₹ 57.83 crore. Besides, concealment of actual production and sale of IMFL also cannot be ruled out.

The matter was reported to the Government (November 2021). During exit meeting (February 2022), the Commissioner & Secretary, Excise Department, assured that the norms for production of IMFL from ENA and norms for production of ENA from raw materials will be notified latest by May 2022.

⁸ 3,78,946.00 cases x ₹ 810 = ₹ 30,69,46,260.00.

⁹ For calculation of VAT, the minimum rate i.e ₹ 716.00 per case is considered i.e. 3,78,946.00 x ₹ 716.00 = ₹ 27,13,25,336.00.

