

**KARNATAKA ACT NO. 27 OF 2004**  
**THE KARNATAKA EXCISE (AMENDMENT) ACT, 2004**  
**Arrangement of Sections**

**Sections:**

1. Short title and commencement
2. Amendment of section 16A
3. Insertion of new section 51A

**STATEMENT OF OBJECTS AND REASONS**

Section 16-A of the Karnataka Excise Act, 1965 provides for entrusting the task of manufacture and/or bottle arrack for sale to a Company or agency owned or controlled by the State Government or a State Government Department. Accordingly, at present, M/s. MSIL and M/s. Mysugar Co., have been entrusted with this task. MSIL does not have primary distillery. M/s. Mysugar Co., is not in a position to supply the required quantity as the Company is in difficult financial position. Of late, due to scarcity of molasses, which is the main raw material for providing rectified spirit, the manufacture and supply of arrack has been gradually affected. After the Government of India has rescinded Molasses Control Order and the State has no control to regulate the manufacture and sale of molasses. However, the Karnataka legislature has recently passed a bill to regulate it and the same has been sent to Government of India to get the assent of the President. Further, there is an element of non-duty paid arrack in the open market. In order to ensure supply of the required quantity of rectified spirit for manufacture of arrack, it is necessary to liberalise arrack manufacture.

Presently, inspection and scrutiny of records maintained by a distillery or a brewery is the responsibility of the Excise Department. This responsibility is discharged primarily by officers posted at the distillery or brewery and through special inspections. However, more than the inspection and scrutiny of records mandated by the Karnataka Excise Act, 1965, it is necessary to form an opinion on the output produced by the manufacturer vis-à-vis the inputs consumed. The essential feature of such an inspection/audit is to correlate the input and output. This is a specialised function for which expert help is necessary. A similar requirement is mandated under section 14AA of the Central Excise Act, 1944. Section 51 of the Karnataka Excise Act, 1965 empowers Excise Commissioner, Deputy Commissioner, Excise Officer and Police Officers to enter and inspect places of manufacture and sale. In order to empower the proposed third party similarly, it is necessary to amend the Karnataka Excise Act, 1965.

In the budget speech for the year 2004-05, the Hon'ble Deputy Chief Minister had announced to liberalise manufacture of arrack by allowing primary distilleries to undertake this activity. The primary objective of this policy is to eliminate 'seconds' or non-duty paid arrack and to thus enhance arrack revenues significantly. Further by liberalising the manufacture of arrack it will be made as market driven such that it should not be responsibility of the Government to supply arrack but rather the function of demand and supply in the market.

Hence the Bill.

(LA Bill No.19 of 2004)

(Entry 51 of list II of Seventh Schedule to the Constitution of India)

**KARNATAKA ACT NO. 27 OF 2004**

(First published in the Karnataka Gazette Extra-ordinary on the thirty first day of July, 2004)

**THE KARNATAKA EXCISE (AMENDMENT) ACT, 2004**

(Received the assent of the Governor on the thirty first day of July, 2004)

An Act further to amend the Karnataka Excise Act, 1965.

Whereas it is expedient further to amend the Karnataka Excise Act, 1965 (Karnataka Act 21 of 1966) for the purposes hereinafter appearing;

Be it enacted by the Karnataka State Legislature in the fifty-fifth year of the Republic of India, as follows:-

**1. Short title and commencement.-** (1) This Act may be called the Karnataka Excise (Amendment) Act, 2004.

(2) It shall come into force at once.

**2. Amendment of section 16A.-** In section 16A of the Karnataka Excise Act, 1965 (Karnataka Act 21 of 1966) (hereinafter referred to as the principal Act), in sub-section (1), in clause (c), after the words "or a State Government Department", the words and figures "or any person unless he holds a distillery licence granted under section 16 for manufacture of spirit out of molasses and is engaged in the manufacture of such spirit." shall be inserted.

**3. Insertion of new section 51A.-** After section 51 of the principal Act, the following section shall be inserted, namely:-

**"51A. Third party inspection or special audit.-** (1) If the Excise Commissioner has reason to believe,-

- (a) that the licensee has not manufactured any excisable goods or spirits as per the norms specified under the rules made under this Act from time to time, having regard to the nature of the excisable goods or spirit produced or manufactured or the type of inputs used and other relevant factors; or
- (b) the licensee has committed any fraud or made any mis-statement or suppression of facts in the accounts or statements submitted; or
- (c) for any other reasons to be recorded in writing;

he may direct for inspection or auditing of accounts of the distillery, brewery, winery, arrack processing unit or any other liquor manufacturing unit and warehouses or any other place as may be specified by him, by a third party or a cost accountant nominated by him.

(2) The third party or the cost accountant, as the case may be, so nominated shall, within the period specified by the Excise Commissioner, submit a report of such inspection or audit of accounts duly signed and certified by him to the Excise Commissioner mentioning therein such other particulars as may be specified.

(3) The provisions of sub-section (1) shall have effect notwithstanding that the accounting of the licensee aforesaid have been audited under any other law for the time being in force or otherwise.

(4) The licensee shall be given an opportunity of being heard in respect of any material gathered on the basis of the inspection or audit under sub-section (1) and proposed to be utilized in any proceeding under the Act or the rules made thereunder.

**Explanation.-** For the purpose of this section,-

- (a) "cost accountant" shall have the meaning assigned to in clause (b) of sub-section (1) of section 2 of the Cost and Works Accounts Act, 1959 (Central Act 23 of 1959);
- (b) "licensee" means a person who holds a licence granted under this Act;
- (c) "third party" means such authority or agency or a Company nominated by the Excise Commissioner from time to time."

By Order and in the name of the Governor of Karnataka,

**G.DAKSHINA MOORTHY**

Secretary to Government,

Department of Parliamentary Affairs and Legislation.