

Chapter 5

VALUATION

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Rules	Descriptions
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VALUATION

under the customs act, 1962

Duties of customs on imported goods or export goods is chargeable in following manner

1. **A Specific duty:** It is based on some measurement or quantities.
2. **Ad-valorem duty:** It is levied as percentage of value of goods i.e. 15 % ad- valorem.

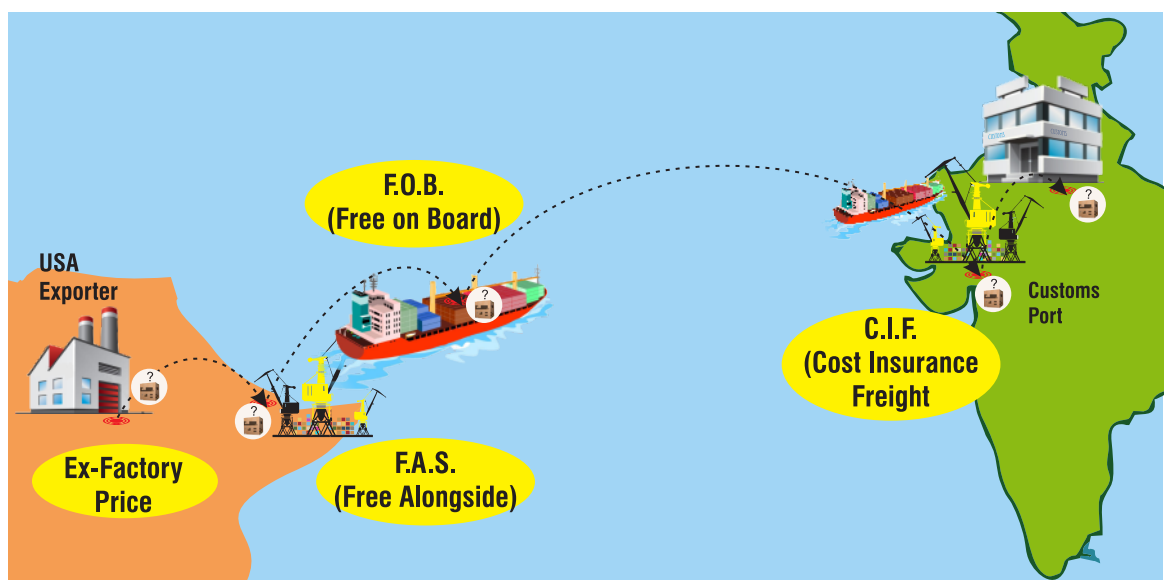
SEC 2(41) CONCEPT OF VALUE

Section 2(41) of the Custom Act, 1962, defines value in relation to any goods as the value thereof determined in accordance with the provision of section 14(1) or Section 14(2)

TECHNICAL TERMS RELATING TO VALUE IN THE COURSE OF IMPORT OR EXPORT

(1) Ex-Factory Price	It is the price of the goods as comes out of the factory. It includes cost of production and manufacturer's margin of profit.
(2) F.A.S (Free Alongside)	It is the cost at which the export goods are delivered alongside the ship, ready for shipment. It includes ex- factory +local freight + local taxes.
(3) F.O.B. (Free on Board)	Technically there is not much of a difference between FAS and FOB cost. FOB means the stage at which the goods are placed on board the conveyance carrying the vessel. It can be said to include FAS + loading charges + export duty cess.
(4) C.I.F. (Cost Insurance Freight)	It is the cost at which the goods are delivered at the Indian port. It covers cost of goods. Some times there is referred as CFC also

PRICING SYSTEM IN INTERNATIONAL MARKET



SEC 14(1) TRANSACTION VALUE

For the purposes of the Customs Tariff Act, 1975 , or any other law for the time being in force, the value of the imported goods and export goods shall be the transaction value of such goods, that is to say,

- ▶ The price actually paid or payable for the goods when sold for
 - Export to **India for delivery at the time and place of importation**(for imported goods) , or
 - Export from **India for delivery at the time and place of exportation**(for exported goods) ,
- ▶ **Where the buyer and seller of the goods are not related and**
- ▶ **Price is the sole consideration for the sale**
- ▶ **Subject to such other conditions as may be specified in the rules made in this behalf**

Provided that such transaction value in the case of imported goods shall include, in addition to the price as aforesaid, any amount paid or payable for costs and services, including

- commissions and brokerage,
- engineering, design work,
- royalties and licence fees,
- costs of transportation to the place of importation,
- insurance,
- loading, unloading and handling charges to the extent and in the manner specified in the rules made in this behalf:

CUSTOMS VALUATION (DETERMINATION OF VALUE OF IMPORTED GOODS) RULES, 2007

Provided further that the rules made in this behalf may provide for,

- i) The circumstances in which the buyer and the seller shall be deemed to be related;
- ii) The manner of determination of value in respect of goods when there is no sale, or the buyer and the seller are related, or price is not the sole consideration for the sale or in any other case;
- iii) The manner of acceptance or rejection of value declared by the importer or exporter, as the case may be, where the proper officer has reason to doubt the truth or accuracy of such value, and determination of value for the purposes of this section:

NOTES:

1. 'The price actually paid or payable' is the total payment made or to be made by the buyer to or for the benefit of the seller of imported goods.
2. **Post importation Expenses**-The value of imported goods shall not include the following charges or costs, because they are distinguished from the price actually paid or payable for the imported goods & all charges or costs are post importation expenses.
 - ▶ Charges for construction, erection, assembly, maintenance, or technical assistance
 - ▶ Cost of transport after importation
 - ▶ Duties and Taxes in India

CONVERSION DATES FOR FOREIGN EXCHANGE RATE

(i)	For imported goods , the conversion in value shall be done with reference to the rate of exchange prevalent on the date of filing bill of entry under section 46.
(ii)	For export goods , the conversion in value shall be done with reference to the rate of exchange prevalent on the <ul style="list-style-type: none"> ➡ date of filing shipping bill (vessel or aircraft) or ➡ bill of export (vehicle) under section 50.





CURRENCY CONVERSION RATE

- (I) The rate of exchange is notified by three agencies-
- the Central Board of Indirect Taxes and Customs (Board),
 - the Reserve Bank of India and
 - the Foreign Exchange Dealers' Association of India.

For the purpose of customs valuation, "rate of exchange" means the rate of exchange-

- (i) determined by the Board, or
- (ii) ascertained in such manner as the Board may direct,

for the conversion of Indian currency into foreign currency or foreign currency into Indian currency. Thus, for the purpose of valuation under customs laws, rate notified by CBIC (Board) shall be taken into account.

The CBIC notifies the rates on a monthly basis applicable from the first day of the month. There are separate rates for imported goods (selling rate) and export goods (buying rate).

Lets understand relevant date for duty rate & exchange rate

Sr. No.	Particulars	Relevant date for duty under sec 15 and 16	Relevant date for Exchange Rate
1.	If goods entered for home consumption		
	a. B/E presented after Entry inward	Date of B/E	Date of B/E
	b. B/E presented before Entry inward	Date of Entry inward	Date of B/E
2.	If goods cleared from a warehouse	Date of Ex-bond B/E	Date of Into bond B/E
3.	If goods entered for export under section 50	Date of let Export Order	Date of Shipping Bill or Bill of Export

SEC 14(2) TARIFF VALUE

It provides that the **Board may fix tariff values** for any class of imported goods or export goods, having regard to the trend of value of such or like goods by notification in the Official Gazette if it is satisfied that it is necessary to do so.

Where any such tariff values are fixed, the duty shall be chargeable with reference to such tariff value. Provisions of sub-section (2) have an overriding effect on the provisions of sub-section (1).

Question:- Mr. X has imported the gold from U.S. following are the details:

Quantity of gold	20,000 grams
Date of arrival of vessel	14/02/2020
Date of entry inward granted	15/02/2020
Date of bill of entry presented	14/02/2020

Particular	Value	Rate
Tariff value 14/02/2020	409 Per 10 gram	10%
15/02/2020	410 per 10 gram	11%

Calculate the value.

Answer:-

VALUATION

SEC 14(1) TRANSACTION VALUE



Imported goods

The value of imported goods shall be the transaction value of such goods i.e. to say:

- Price **actually paid or payable** for goods when sold for export to India.
- For **delivery** at the time & place of importation.
- Where the **buyer & seller** of the goods are not related.
- Price is **sole consideration** for sale.
- Subject to such other conditions as may be **specified in the rules** made in this behalf.

Export goods

Value of export goods shall be the transaction value of such goods i.e. to say:

- Price **actually paid or payable** for goods when sold for export from India.
- For **delivery** at the time & place of exportation.
- Where the **buyer & seller** of the goods are not related.
- Price is **sole consideration** for the sale.
- Subject to such other conditions as may be **specified in the rules** made in this behalf.

SEC 14(2) TARIFF VALUE

Notwithstanding anything contained in sub-section 14(1), if the Board is satisfied that it is necessary or expedient so to do, it may, by notification in the Official Gazette, fix tariff values for any class of imported goods or export goods, having regard to the trend of value of such or like goods, and **where any such tariff values are fixed, the duty shall be chargeable with reference to such tariff value.**

Meaning of Price **actually paid or payable** for goods when sold

CASE	List price	Adjustment	Price actually paid or payable	Additional Points	T.V.	REMARK
1	Rs. 100	Normal discount offered Rs.20	Rs. 80		Rs. 80	Price after discount will be considered as T.V.
2	Rs. 100		Rs. 100	Cost of production of Export goods is Rs 150	Rs. 100	T.V. is price actually paid or payable by importer & cost of goods is not relevant
3	Rs. 100		Rs. 100	Price of identical goods prevailing in the market Rs 150.	Rs. 100	T.V. is price actually paid or payable by importer & price of like goods is not relevant
4	Rs. 100		Rs. 100	Contract for Rs 100 entered between buyer and seller was before 6 month. On date of importation price of Identical goods prevailing is Rs. 200	Rs. 100	T.V. is price actually paid or payable by importer & price of like goods is not relevant
5	Rs. 100	Exclusive discount or reduction given to buyer of Rs. 40	Rs 60	Buyer is asked not to disclose the specially reduced price to any other party in India	Rs 60	T.V. is price actually paid or payable by importer subject to other conditions in rule
6	Rs. 100	Abnormal discount of Rs.80 is given to buyer to clear the dead stock.	Rs 20		Rs 20	T.V. is price actually paid or payable by importer subject to other conditions in rule

RULE 3 TRANSACTION VALUE

RULE 3(1)

T.V. & Adjustments

SUBJECT TO RULE 12, the value of imported goods shall be the **TRANSACTION VALUE** adjusted in accordance with provisions of **RULE 10**.

RULE 12
Rejection of
Transaction Value

RULE 10: ADJUSTMENT IN T.V.

RULE 10(1)

- a) Commission & brokerage
- b) Cost of Goods or service supplied by buyer
- c) Royalties & license fees
- d) Subsequent pay back to the seller
- e) All other payments actually made as a condition of sale

RULE 10(2)

- a) Cost of transportation, etc.
- b) Cost of Insurance

RULE 2(2) RELATED

For the purpose of these rules, persons shall be deemed to be "related" only if -

- I. They are **officers or directors** of one another's businesses;
- II. They are legally recognized **partners** in business;
- III. They are **employer** and employee;
- IV. Any person **directly or indirectly** owns, controls or **holds 5 per cent or more** of the outstanding voting stock or shares of both of them;
- V. One of them directly or indirectly **controls the other**;
- VI. Both of them are directly or indirectly **controlled by a third person**;
- VII. Together they directly or indirectly **control a third person**;
- VIII. They are **members of the same family**.

Explanation: sole agent / distributor shall be treated as related only if they are covered within any criteria of this sub-rule

RULE 3(2)

Conditions for T.V.

Transaction Value of imported shall be accepted subject to following conditions

- a) **Restriction on Disposal :-** There are no restrictions as to the disposition (sale) or use of the goods by the importer other than restrictions which -
 - ☞ Are imposed or required by law or by the public authorities in India; or
 - ☞ Limit the geographical area in which the goods may be resold or
 - ☞ Do not substantially affect the value of the goods; (See Example 1)
- b) **Conditional sale:-** The sale or price is not subject to some condition or consideration for which a value cannot be determined in respect of the goods being valued. (See Example 2)
- c) **Subsequent Resale:-** No part of the proceeds of any subsequent resale, disposal or use of the goods by the buyer will accrue directly or indirectly to the seller, unless an appropriate adjustment can be made in accordance with the provisions of Rule 10 of these rules, and
- d) **Related Parties:-** The buyer and seller are not **RELATED**,
Provided that where the buyer and seller are related, that transaction value is acceptable for customs purposes under the provisions of **SUB - RULE (3)** below.

(Example 1)

- Q. a seller requires a buyer of automobiles not to sell or exhibit them prior to fixed date which represent the beginning of a model year
- A. Restriction of seller regarding exhibition of goods does not substantially affect the value, hence TV is acceptable.
- Q. Machine is sold at a nominal price on a condition that the buyer uses it only for a charitable purpose
- A. Restriction regarding use of goods for charitable use substantially affect the value and hence TV is not acceptable.

(Example 2)

- a) The seller establishes the price of the imported goods on condition that the buyer will also buy other goods in specified quantities.
- b) The price of the imported goods is dependent upon the price or prices at which the buyer of the imported goods sells other goods to the seller of the imported goods.
- c) The price is established on the basis of a form of payment extraneous to the imported goods, such as where the imported goods are semi finished goods which have been provided by the seller on condition that he will receive a specified quantity of the finished goods.

RULE 3(3) TRANSACTION VALUE ACCEPTABLE EVEN THOUGH BUYER AND SELLER ARE RELATED.

- (a) Where the buyer and seller are related, the transaction value shall be accepted provided that the examination of the **circumstances of the sale of the imported goods indicate that the relationship did not influence the price.**
- (b) In a sale between related persons, the transaction value shall be accepted, whenever the importer demonstrates that the **declared value of the goods being valued, closely approximates to** one of the following values ascertained at or about the same time.

(i)	the transaction value of identical goods, or of similar goods , in sales to unrelated buyers in India;
(ii)	the deductive value for identical goods or similar goods;
(iii)	the computed value for identical goods or similar goods



Tutorial Notes

Such examination will only be required where there are doubts about the acceptability of the price. Where the proper officer of customs has no doubts about the acceptability of the price, it should be accepted without requesting further information from the importer.

Rule 3(4):

If the value cannot be determined under the provisions of rule 3(1) or 3(2), the value shall be determined by proceeding

SEQUENTIALLY THROUGH RULE 4 TO 9.



RULE 10(1) ADJUSTMENT IN T.V.

While determining the transaction value there shall be added in the price actually paid or payable for imported goods **namely:**

a) Commission, brokerage and packing etc.

Following cost or services:

- To the extent they are incurred by the buyer and
- Are not included in the price actually paid or payable for imported goods.

i) Commission and brokerage except buying commission

ii) Cost of container in which goods are imported

iii) Cost of packing which includes cost of labour and material

Comment 1.

Definition of buying commission: Buying commission means fees paid by importer to agent for representing abroad on behalf of importer and also for supply of information about prospective vendors.

Comment 2.

Commission or brokerage paid in India : Following commission / brokerage includible in TV
 - Commission paid to local agent in India
 - Commission paid to cannalising agency

Comment 3.

Cost of returnable container: It is not includible in TV if importer executes a bond for re-export of containers within six months (extendable upto one year)

Example:-

FOB value	1000
Buying Commission	50
Returnable container	20
Non-returnable	10
Brokerage in India	70
Calculate value.	

Answer:-

b) **Free assistance by buyer**
 Apportioned value of the following goods or services:
 ➤ Where supplied directly or indirectly by the buyer at free of cost or reduced cost for use in connection with production & sale of imported goods.
 ➤ To the extent that such value has not been included in the price actually paid or payable.

c) Royalty & licence fees:

- Related to imported goods.
- Buyer is required to pay directly or indirectly as a condition of sale of goods being valued.
- To the extent that such royalty & licence fees are not included in price actually paid or payable.

Comment: Royalty and licence fees includes patents, know how, copyrights, brand name or trade name.

Explanation: Where royalty or licence fees or any other payment made by the buyer for any process shall be added in the transaction value not withstanding to the fact that such process is carried out in India after importation of imported goods.

Example: Mr. X import a software (Master copy) of Window & paid license fee with permission to use its copies at various branches by making additional copies of it. **Calculate value**
 Value of Hard Disk: ₹ 500
 License Fee : ₹ 15,000
Answer:-

d) The value of any part of proceeds of subsequent resale, disposal of imported goods accrued directly or indirectly to the seller.

Comment: Dividend distribution by the buyer to the seller (subsidiary to holding) shall not be treated as part of proceeds of subsequent resale and hence not includible in transaction value.

Example:
 Value of Machine 10,000
 Dividend Paid by importer company ₹200
 After sale of machine 2% of sale value paid by importer.
Calculate value
Answer:-

e) All other payments actually made or to be made:

- As a condition of sale of imported goods.
- By the buyer to or on the behalf of seller.
- To the extent that such payment is not included in price actually paid or payable.

Example:

Value of Machine 10,000
 Importer paid to Mr. X on behalf of supplier ₹ 500.
Calculate value
Answer:-

i) Material, components, parts and similar items

Incorporated in the imported goods.

Example: FOB Value of Goods ₹1000
 Material Supplied by Importer ₹50
 Tools used in production supplied by importer ₹100
 Sketches supplied by importer undertaken in USA. ₹60

ii) Tools, moulds, dies & similar items

Used in the production of imported goods

iii) Material

Consumed in the production of imported goods.

Calculate value
Answer:-

iv) Engineering, development, art work, design, plan & sketches

Undertaken elsewhere than in India & necessary for production of imported goods.

Comment: Apportioned value of above goods and services shall be determined in the following manner:
 1) If goods are produced by the importer cost of production of such goods shall be included.
 2) If goods or services are acquired by the importer cost of acquisition is included in transaction value.

EXAMPLE 1: COMMISSION & BROKERAGE (RULE 10(1)(a))

Any commission or brokerage paid by the buyer for conclusion of contract is includible in transaction value

	Cases	Includible in transaction value or not?	Remark
SELLING COMMISSION	Selling Commission already charged in Invoice	No	Question of separate addition does not arise
	Selling Commission charged by seller by issuing separate invoice	Yes	Rule 10(1)(a)
	Selling Commission paid by the buyer on the instruction seller to the foreign agent.	Yes	Rule 10(1)(a)
	Selling Commission paid by the buyer on the instruction seller to the Local agent India.	Yes	Rule 10(1)(a)
BUYING COMMISSION	"Buying commissions" paid by an importer to his agent <u>for the service of representing him abroad in the purchase of the goods being valued.</u>	No	Under Rule 10(1)(a), specifically excluded.

EXAMPLE 2: PAYMENTS AS CONDITION OF SALE BY THE BUYER TO OR ON BEHALF OF SELLER (CONDITION OF SALE ALSO INCLUDES IMPLICIT CONDITIONS) (RULE 10(1)(e))

	PAYMENT BY BUYER TO OR ON BEHALF OF SELLER	INCLUDIBLE IN TRANSACTION VALUE OR NOT?	REMARK
1.	Dismantling charges	Yes	Bombay Dyeing & Mfg Co Ltd. Dismantling charges is includible in TV because without dismantling of machinery, it is not possible to bring the goods to India. It is an implicit condition of sale.
2.	Drawing or design charges		
		Yes	As per Rule 10(1)(e), any other payment made by buyer to the seller as a condition of sale, then it is includible in TV.
		Yes	As per Rule 10(1)(e), any payment made by buyer to seller as a condition of sale, then it is includible in TV – conditions of sale is also an implicit condition.
3.	Interest for late payment	No	Interest or bank charges are financial charges related to late payment. It has no concern with sale of goods
4.	Bank charges	No	-same as above-

Rule 2 - Definition

Rule 2 (da) **Place of importation** means the customs station, where the goods are brought for being cleared for home consumption or for being removed for deposit in a warehouse.

**Tutorial Notes**

The term "place of importation" was used in the Custom Valuation Rules however, the said term was not defined. In order to bring in clarity, the definition of term place of importation has been inserted in said rules.

In view of the above definition, the transaction value of the imported goods in terms of section 14 of the Customs Act, 1962 would include the costs incurred up to the place of importation, as defined above.

Rule 10(2) - Cost of transportation & Insurance

For the purposes of sub-section (1) of section 14 of the Customs Act, 1962 and these rules, the value of the imported goods shall be the value of such goods, and shall include -

- | | |
|-----|--|
| (a) | the cost of transport, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation |
| (b) | the cost of insurance to the place of importation |

Circular No. 39/2017 - Cust., dated 26-9-2017

Handling "at" port not includible : The loading, unloading and handling charges associated with delivery of imported goods at the place of importation, shall not be added. Only such charges "upto" the place of importation are added on actual basis.

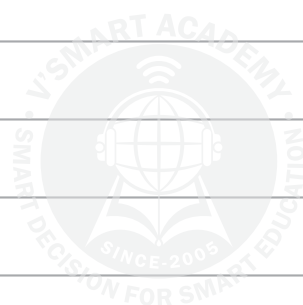
Meaning of "loading, unloading and handling charges" : In accordance with Article 8(2) of the WTO Agreement, it means "the cost of transport of the imported goods to the port or place of importation". **Thus, only charges incurred for delivery of goods "to" the place of importation (such as the loading and handling charges incurred at the load port) shall be includible in the transaction value.**

Important Comment : Treatment of the loading, unloading and handling charges under the amended provisions

Thus, under the amended provisions of rule 10(2) of CVR, the loading, unloading and handling charges associated with the delivery of the imported goods at the place of importation, shall no longer be added to the CIF value of the goods.

The phrase "loading, unloading and handling charges" appearing in the amended rule is to be understood in context of Article 8(2) of the WTO Agreement which reads as "the cost of transport of the imported goods to the port or place of importation".

Only charges incurred for delivery goods at port in the country of export to be added in value loading unloading & other related cost to delivery at Indian Custom station is not to be included in value of imported goods.



Proviso 1	Provided that where the cost referred to in clause (a) is not ascertainable, such cost shall be 20% of the free on board value of the goods:	
Example :-	Particulars	US \$
	FOB value	1,000
	Freight, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation	Not known
	Insurance charges	10
Answer :-		
Proviso 2	Provided further that where the free on board value of the goods is not ascertainable but the sum of free on board value of the goods and the cost referred to in clause (b) is ascertainable, the cost referred to in clause (a) shall be 20% of such sum.	
Example	Particulars	US \$
	FOB value plus insurance charges	1,010
	Freight, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation	Not known
Answer :-		
Proviso 3	Provided also that where the cost referred to in clause (b) is not ascertainable, such cost shall be 1.125% of free on board value of the goods.	
Example	Particulars	US \$
	FOB value	1,000
	Sea freight, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation	60
	Insurance charges	Not known
Answer :-		
Proviso 4	Provided also that where the free on board value of the goods is not ascertainable but the sum of free on board value of the goods and the cost referred to in clause (a) is ascertainable, the cost referred to in clause (b) shall be 1.125% of such sum.	
Example	Particulars	US \$
	FOB value plus sea freight and loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation	1,060
	Insurance charges	Not known
Answer:-		

<p>Proviso 5</p>	<p><i>Provided also that in the case of goods imported by air, where the cost referred to in clause (a) is ascertainable, such cost shall not exceed 20% of free on board value of the goods.</i></p>
<p>Proviso 6</p>	<p><i>Provided also that in the case of goods imported by sea or air and transhipped to another customs station in India,</i></p> <p><i>the cost of insurance, transport, loading, unloading, handling charges associated with such transshipment shall be excluded.</i></p> <div data-bbox="272 753 1161 1074"> </div> <div data-bbox="1203 615 1537 1019"> <p>Analysis [Circular No. 39/2017 - Cus., dated 26-9-2017] : Costs related to transshipment of goods (from ports to ICDs (inland Container Depot) : port to port, port to CFS (Container Freight Station), Airport to Airport, etc.) within India will be excluded, providing uniform treatment to different modes of transshipment.</p> </div>

Explanation to Rule 10(2)

The cost of transport of the imported goods referred to in clause (a) includes the ship demurrage charges on chartered vessels, lighterage or barge charges.



the ship demurrage charges on chartered vessels,

in cases where ship demurrage charges are paid by the importer for detention of the ship in the harbour before touching the landmass at the docks or at the place of consumption, these charges **would be includible in the cost of transportation.**

lighterage or barge charges.

in cases where the big mother vessels cannot enter the harbour for any reason and goods are brought to the docks by smaller vessels like barges, small boats, etc., the cost incurred by the importer for bringing the goods to the landmass or place of consumption, such as **lighterage charges, barge charges will also be included in the cost of transportation.**

CHART

Question : 1

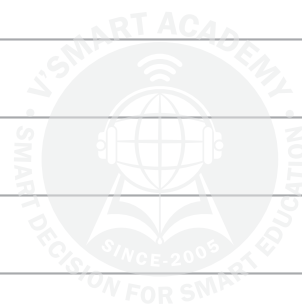
An importer from Cochin imports goods from an exporter in US. The vessel carrying the goods reaches Mumbai port first and from there goods are transshipped to Cochin port.

Determine the assessable value of the imported goods under the Customs Act, 1962 from the following particulars: [RTP]

S.No.	Particulars	Amount
(i)	Cost of the machine at the factory of the exporter	US \$ 20,000
(ii)	Transport charges from the factory of exporter to the port for shipment	US \$ 1,000
(iii)	Handling charges paid for loading the machine in the ship	US \$ 100
(iv)	Buying commission paid by the importer	US \$ 100
(v)	Freight charges from exporting country to India	US \$ 2,000
(vi)	Actual insurance charges paid are not ascertainable	—
(vii)	Charges for design and engineering work undertaken for the machine in US	US \$ 5,000
(viii)	Unloading and handling charges paid at the place of importation	₹ 1,500
(ix)	Transport charges from Mumbai to Cochin port	₹ 25,000
(x)	Exchange rate to be considered: 1\$ = ₹ 60	

Answer :

Students
Notes



**Question : 2**

Product 'Z' was imported by Mr. X by air. The details of the import transaction are as follows: [RTP May 2018]

Particulars	US \$
Price of 'Z' at exporter's factory	8,500
Freight from factory of the exporter to load airport (airport in the country of exporter)	250
Loading and handling charges at the load airport	250
Freight from load airport to the airport of importation in India	4,500
Insurance charges	2,000

Though the aircraft arrived on 22.08.20XX, the bill of entry for home consumption was presented by Mr. X on 20.08.20XX.

The other details furnished by Mr. X are:

	20.08.20XX	22.08.20XX
Rate of basic customs duty	20%	10%
Exchange rate notified by CBEC	₹ 60 per US\$	₹ 63 per US\$
Exchange rate prescribed by RBI	₹ 61 per US\$	₹ 62 per US\$
Integrated tax leviable under section 3(7) of the Customs Tariff Act, 1975	18%	12%

Compute-

- value of product 'Z' for the purpose of levying customs duty
- customs duty and tax payable

Answer :



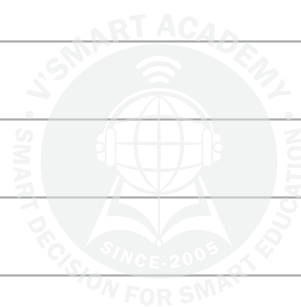
Question : 3

15000 chalices were imported for charitable distribution in India by XY Charitable Trust. The Trust did not pay either for the cost of goods or for the design and development charges, which was borne by the supplier. Customs officer computed its FOB value at USD 20,000 (including design and development charges), which was accepted by the Trust. Other details obtained were as follows: (MTP May 2018)

Sl. No.	Particulars	Amount												
1.	Freight paid (air) (inUSD)	4,500												
2.	Design & development charges paid in USA (in USD)	2,500												
3.	Commission payable to an agent in India (in ₹)	12,500												
4.	Exchange rate notified by CBEC and rate of basic duty is as follows : <table border="1"> <tr> <th>Date of Bill of Entry</th><th>BCD</th><th>Exchange Rate in ₹</th></tr> <tr> <td>08.09.20XX</td><td>20%</td><td>60</td></tr> <tr> <th>Date of arrival of aircraft</th><th>BCD</th><th>Exchange Rate in ₹</th></tr> <tr> <td>30.09.20XX</td><td>10%</td><td>62</td></tr> </table> <p>The inter-bank rate was 1 USD = ₹ 63</p>	Date of Bill of Entry	BCD	Exchange Rate in ₹	08.09.20XX	20%	60	Date of arrival of aircraft	BCD	Exchange Rate in ₹	30.09.20XX	10%	62	
Date of Bill of Entry	BCD	Exchange Rate in ₹												
08.09.20XX	20%	60												
Date of arrival of aircraft	BCD	Exchange Rate in ₹												
30.09.20XX	10%	62												
5.	Integrated tax payable u/s 3(7) of the Customs Tariff Act, 1975	12%												

Compute the amount of total customs duty and integrated tax payable on importation of chalices. Make suitable assumptions where required. Working notes should form part of your answer.

Answer :



Rule 3(4):

If the value cannot be determined under the provisions of rule 3(1) or 3(2), the value shall be determined by proceeding

SEQUENTIALLY THROUGH RULE 4 TO 9.**RULE 2(1) (d): IDENTICAL GOODS**

"Identical goods" means imported goods -

i) Which are same in all respects, including

Same physical characteristics

Quality

Reputation

Except for minor difference in appearance which does not affect price of goods being valued

RULE 2(1) (f): SIMILAR GOODS

"Similar goods" means imported goods -

i) Which although not alike in all respects, have

Like characteristics

Like component material which enable to perform same function

Commercially inter-changeable with the goods being valued having regard to quality reputation and trade mark

ii) **Produced in the country** in which the goods being valued were produced, and

iii) **Produced by the same person** who produced the goods, or where no such goods are available, goods produced by a different person,

But shall not include imported goods

- ➔ where engineering, development work, art work, design work, plan or sketch **undertaken in India**
- ➔ were completed directly or indirectly by the buyer on these imported goods free of charge or at a reduced cost
- ➔ for use in connection with the production and sale for export of these imported goods.



(LG Ltd, USA)



(LG Ltd, USA)
Plastic Body



(Samsung Ltd, Japan)
Stainless Steel



(Whirlpool Ltd, China)
Steel Body



(LG Ltd, USA)
Stainless Steel
Different Colour



RULE 4 / RULE 5 TRANSACTION VALUE OF IDENTICAL GOODS/SIMILAR GOODS

- 1) Subject to the provisions of Rule 3 of these rules, the value of imported goods shall be the transaction value of identical goods /similar goods sold for export to India

Such identical/similar goods are imported at or about the same time.

Such identical/similar goods are imported at substantially same quantity and same commercial value.

Where no sale at the same commercial level and in substantially the same quantity is found, then

Condition of sale of IG/SG	Adjustments to be made
A sale at same commercial level but indifferent quantities	Adjust Quantity Factor i.e. Quantity Discount
A sale at different commercial level but in Substantially same quantities	Adjust commercial Level factor i.e. Discount
A sale at different commercial level and different quantities	Adjust both the factors

- 2) Where the costs and charges referred to in Rule 10(2) (cost of transportation, insurance & etc.) are included in the transaction value of identical goods / similar goods an adjustment shall be made,

if there are significant differences in such costs and charges between the goods being valued and the identical goods / similar goods in question arising from differences in distances and means of transport.

- 3) In applying this rule, if more than one transaction value of identical goods / similar goods is found, the **lowest such value shall be used to determine the value of imported goods.**

EXAMPLE 1:

Sagar Dry Fruits Ltd. imported dry fruits and declared the value as under:

Date of Imports	Quantity	Value Declared (Rs.)	Country of Export
Nov. 20XX	250 M.T.	25,000 per M.T.	Egypt
-Do-	150 M.T.	-Do-	-Do-

It was found that imports were also made by some other dealers as indicated below:

Date of Imports	Quantity	Value Declared (Rs.)	Country of Export
Sept. 20XX By importer Mumbai International	50 M.T.	35,000 per M.T.	Dubai
Oct. 20XX By importer Chennai Fruits Ltd.	20 M.T.	40,000 per M.T.	Persia

The Customs Department has sought to assess the imports made by Sagar Dry Fruits Ltd. as "contemporaneous imports" under Section 14 read with Rule 4 of the Customs Valuation Rules, 2007. Briefly examine whether the action proposed by the department is correct.



EXAMPLE 2: A consignment of 800 metric tonnes of edible oil of Malaysian origin was imported by a charitable organization in India for free distribution to below poverty line citizens in a backward area under the scheme designed by the Food and Agricultural Organization. This being a special transaction, a nominal price of US\$ 10 per metric tonne was charged for the consignment to cover the freight and insurance charges. The Customs House found out that at or about the time of importation of this gift consignment there were following imports of edible oil of Malaysian origin:

S. No.	Quantity imported in metric tonnes	Unit price in US \$(CIF)
1.	20	260
2.	100	220
3.	500	200
4.	900	175
5.	400	180
6.	780	160

The rate of exchange on the relevant date was 1 US \$ = ₹ 60.00 and the rate of basic customs duty was 10% ad valorem. There is no countervailing duty or special additional duty. Calculate the amount of duty leviable on the consignment under the Customs Act, 1962 with appropriate assumptions and explanations, where required.

RULE 6

If the value of imported goods cannot be determined under the provisions of rules 3, 4 and 5, the value shall be determined under the provisions of rule 7 or, when the value cannot be determined under that rule, under rule 8:

Provided that at the request of the importer, and with the approval of the proper officer, the order of application of rules 7 and 8 shall be reversed.

RULE 7 - DEDUCTIVE VALUE

Subject to the provisions of Rule 3 of these rules, if the

- ▶ goods being valued or
- ▶ Identical or
- ▶ similar imported goods

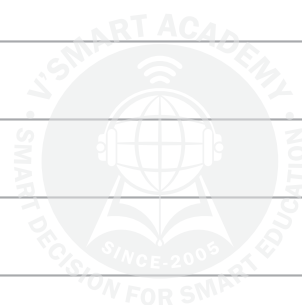
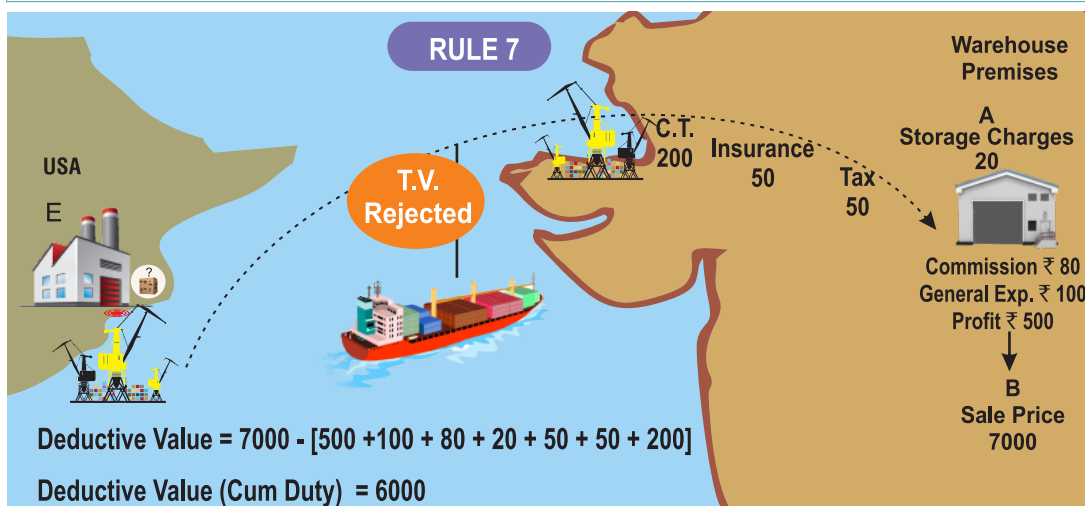
are sold in India,

1) In the condition as imported

- a) **At about the time at which the declaration for determination of value is presented-** the value of imported goods shall be based on the **unit price** at which the imported goods or identical or similar imported goods are sold in India,
- b) **Not at or about the same time of importation of the goods being valued,** -the value of imported goods shall, be based on the **unit price** at which the imported goods or identical or similar imported goods are sold in India, at the earliest date after importation but before the expiry of **90 days** after such importation.
- c) **Unit price under (a) and (b) subject to the following deductions:**
 - i) Either the **commission** usually paid or agreed to be paid or the additions usually made for **profits and general expenses** in connection with sales in India of imported goods of the same class or kind;
 - ii) The usual **costs of transport and insurance** and associated costs incurred within India;
 - iii) The **customs duties and other taxes** payable in India by reason of importation or sale of the goods.

- 2) **Not in the condition as imported, then,** the value shall be based on the **unit price** at which the imported goods, after further processing, are sold to the seller in India.
In such determination, due allowance shall be made for the value added by processing and the deductions provided for in items (i) to (iii) as specified in (c)

In (1) and (2) Unit price is price at which greatest aggregate quantity sold to persons who are not related to the sellers in India



**Question:-**

M/s. Jwala & co. imported goods declaring transaction value of ₹ 500 per unit, which was rejected. Rules 4 and 5 of Import valuation rules are found inapplicable. M/s. Jwala & co. furnishes you following data and requests you to compute value of imported goods as per Rule 7:

(i) Sale price in India (after processing, etc.)	₹1,000 P.u.
(ii) Commission to India agent on above sales	5% off sale price
(iii) Cost of processing after import	₹ 65 p.u.
(iv) Freight and Insurance from port of import onwards	₹ 30 and ₹ 20 p.u.
(v) General Expenses and Overheads in India are absorbed at	₹ 100 p.u.
(vi) Net profit margin (normally earned by others also)	15 % of sale price
(vii) Rate of Basic Custom Duty (No other duty leviable)	10% + 10% SWS
(viii) Loading, Unloading and Handling charges upto place of importation	₹ 45 p.u.

Solution:- Computation of Custom value under Rule 7

Particulars	(p.u.)
Sale Price in India	1,000
Less: Commission on sales @ 5% of 1,000	50
Cost of processing in India	65
Post - import freight and insurance (₹ 30 + ₹ 20 = ₹ 50p.u.)	50
General Expenses (port -Import)	100
Net Profit margin in India 15% of 1,000	150
Cum- duty price	585
Less: Custom Duty @ 11% (BCD + SWS) [585 x 11/111] (rounded off to nearest rupees)	57.97 or 58
Custom Value	527
Note :- Handling Charges upto port are already included in value of ₹527, as Rule 7 involves reverse working	

RULE 8 - COMPUTED VALUE

Subject to the provisions of Rule 3, the value of imported goods shall be based on a computed value, which shall consist of the sum of

a) ➡ The cost or value of materials and fabrication or ➡ other processing employed in producing the imported goods.	b) An amount for profit and general expenses equal to ➡ that usually reflected in sales of goods of the same class or kind as the goods being valued ➡ which are made by producers in the country of exportation for export to India.	c) The cost or value of all other expenses under sub-rule (2) of rule 10. i.e. cost of transportation, insurance.
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Question :-

Miss Harshita imported certain goods from a related person Mr. Sagar of US and transaction value has been rejected. Rules 4 and 5 of the Import Valuation rules are found inapplicable, as no similar/identical goods are imported in India. Miss Harshita furnishes cost related data of imports and requests Customs Authorities to determine value as per Rule 8. The relevant data are -

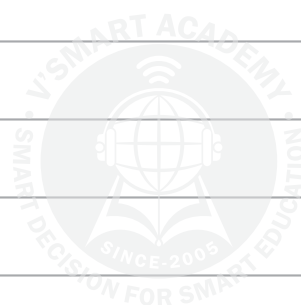
(i) Cost of materials incurred by Mr. Sagar	\$550
(ii) Making charges incurred by Mr. Sagar	\$100
(iii) Other direct expenses incurred by Mr. Sagar	\$350
(iv) Overheads Incurred by Mr. Sagar	\$260
(v) Freight from Mr. Sagar's factory to US port	\$90
(vi) Loading charges at US port	\$50
(vii) Normal net profit margin of Mr. Sagar	20% of FOB
(viii) Air freight from US port to Indian port	\$375
(ix) Insurance from US port to Indian port	\$175
(x) Exchange rate	₹ 60 per \$

The Custom Authorities are of the opinion that since value as per rule 7 can be determined at ₹ 1,45,000 there is no need to apply rule 8

Solution:- As per Rule 6, at opinion of importer, Rule 8 may be applied before Rule 7. Hence, request of Miss Harshita to apply Rule 8 is valid and since Rule 8 data is available, Authorities cannot force valuation as per rule 7.

Computation of value as per Rule 8 [Cost sheet system]

(i) Cost of material incurred by Mr. Sagar	\$ 550
(ii) Making charges incurred by Mr. Sagar	\$ 100
(iii) Other direct expenses incurred by Mr. Sagar	\$ 350
(iv) Overheads incurred by Mr. Sagar	\$ 260
(v) Freight from Mr. Sagar's factory to US port	\$ 90
(vi) Loading charges at US port	\$ 50
Total Cost incurred by Mr. Sagar	\$ 1,400
(vii) Normal net profit margin of Sagar [20% of FOB or 25% of Cost = 25% of \$ 1,400]	\$ 350
FOB Value	\$ 1,750
(viii) Air Freight and handling from US port to India [Air freight cannot exceed 20% of FOB; Hence restricted to 20% of \$ 1,750 [Rule 10(2)(b)]]	\$ 350
(ix) Insurance from US port to Indian port [Rule 10(2)(b)]	\$ 175
CIF or Assessable Value under Customs	\$ 2,275
Assessable Value (in ₹) [\$ 2,150 x Exchange rate ₹ 60 per \$]	1,36,500





RULE 9 - RESIDUAL METHOD [Best Judgement Valuation]

Subject to the provisions of rule 3, where the value of imported goods cannot be determined under the provisions of any of the preceding rules, then

The value shall be determined using

- **Reasonable means consistent with the principles and general provisions of these rules and**
- on the basis of data available in India;

No value shall be determined under the provisions of this rule on the basis of

- The selling price in India of the goods produced in India;
- A system which provides for the acceptance for customs purposes of the highest of the two alternative values;
- The price of the goods on the domestic market of the country of exportation;
- The cost of production other than computed values which have been determined for identical or similar goods in accordance with the provisions of Rule 8;
- The price of the goods for the export to a country other than India;
- Minimum customs values; or
- Arbitrary or fictitious values.

RULE 11 - DECLARATION BY THE IMPORTER

- 1) The importer or his agent shall furnish
 - a) A declaration disclosing full and accurate details relating to the value of imported goods; and
 - b) Any other statement, information or document including an invoice of the manufacturer or producer of the imported goods where the goods are imported from or through a person other than the manufacturer or producer, as considered necessary by the proper officer for determination of the value of imported goods under these rules.
- 2) Nothing contained in these rules shall be construed as restricting or calling into question the right of the proper officer of customs to satisfy himself as to the truth or accuracy of any statement, information, document or declaration presented for valuation purposes.
- 3) The provisions of the Customs Act, 1962 relating to confiscation, penalty and prosecution shall apply to cases where wrong declaration, information, statement or documents are furnished under these rules.

RULE 12 - REJECTION OF DECLARED VALUE

- 1) When the proper officer has
 - ▶ Reason to **doubt the truth or accuracy** of the value declared in relation to any imported goods,
 - ▶ He may ask the importer of such goods to furnish further information including documents or other evidence and
 - ▶ If, after receiving such further information, or in the absence of a response of such importer, the proper officer still has reasonable doubt about the truth or accuracy of the value so declared,
 - ▶ It shall be deemed that the value of such imported goods cannot be determined under the provisions of sub-rule (1) of Rule 3 (Transaction value).
- 2) At the request of an importer, the proper officer, shall intimate the importer in writing the grounds for doubting the truth or accuracy of the value declared in relation to goods imported by such importer and provide a reasonable opportunity of being heard, before taking a final decision under sub-rule (1).

EXPLANATION: For the removal of doubts, it is hereby declared that

- i. This rule by itself does not provide a method for determination of value, it provides a mechanism and procedure for rejection of declared value in cases where there is reasonable doubt that the declared value does not represent the transaction value; where the declared value is rejected, the value shall be determined by proceeding sequentially in accordance with rules 4 to 9.
- ii. The declared value shall be accepted where the proper officer is satisfied about the truth and accuracy of the declared value after the said enquiry in consultation with the importers.
- iii. The proper officer shall have the powers to raise doubts on the truth or accuracy of the declared value based on certain reasons which may include -
 - a. The significantly higher value at which identical or similar goods imported at or about the same time in comparable quantities in a comparable commercial transaction were assessed;
 - b. The sale involves an abnormal discount or abnormal reduction from the ordinary competitive price;
 - c. The sale involves special discounts limited to exclusive agents;
 - d. The mis-declaration of goods in parameters such as description, quality, quantity, country of origin, year of manufacture or production;
 - e. The non declaration of parameters such as brand, grade, specifications that have relevance to value;
 - f. The fraudulent or manipulated documents.





CUSTOMS VALUATION (DETERMINATION OF VALUE OF EXPORT GOODS) RULE, 2007

RULE 2 (1)(A) GOODS OF LIKE KIND AND QUALITY

“goods of like kind and quality” means export goods

- which are identical or similar in physical characteristics, quality and reputation as the goods being valued, and
- perform the same functions or are commercially interchangeable with the goods being valued,
- produced by the same person or a different person; and

RULE 2(2) RELATED

Same as defined under Rule 2(2) Customs Valuation (Determination of Price of Imported Goods) Rule 12007

RULE 3: DETERMINATION OF VALUATION OF EXPORT GOODS

- | | |
|------|---|
| 3(1) | Subject to rule 8, the value of export goods shall be the transaction value. |
| 3(2) | The transaction value shall be accepted even where the buyer and seller are related, provided that the relationship has not influenced the price. |
| 3(3) | If the value cannot be determined under the provisions of sub-rule (1) and sub-rule (2), the value shall be determined by proceeding sequentially through rules 4 to 6. |

RULE 4 DETERMINATION OF EXPORT VALUE BY COMPARISON [T.V. of goods of like kind or quality]

- | | |
|----|--|
| 1) | The value of the export goods shall be based on <ul style="list-style-type: none"> ▶ the transaction value of goods of like kind and quality ▶ exported at or about the same time ▶ to other buyers in the same destination country of importation or ▶ in its absence another destination country of importation adjusted in accordance with the provisions of sub-rule (2) |
| 2) | In determining the value of export goods under sub-rule (1), the proper officer shall make such adjustments as appear to him reasonable, taking into consideration the relevant factors, including- <ul style="list-style-type: none"> ▶ difference in the dates of exportation, ▶ difference in commercial levels and quantity levels, ▶ difference in composition, quality and design between the goods to be assessed and the goods with which they are being compared, ▶ difference in domestic freight and insurance charges depending on the place of exportation. |

RULE 5 COMPUTED VALUE METHOD

If the value cannot be determined under rule 4, it shall be based on a computed value, which shall include the following:-

- | | |
|----|--|
| a) | Cost of production, manufacture or processing of export goods; |
| b) | Charges, if any, for the design or brand; |
| c) | An amount towards profit. |

RULE 6 RESIDUAL METHOD

- | | |
|----|--|
| 1) | Subject to the provisions of rule 3, where the value of the export goods cannot be determined under the provisions of rules 4 and 5, the value shall be determined using reasonable means consistent with <ul style="list-style-type: none"> ▶ the principles and ▶ general provisions of these rules ▶ provided that local market price of the export goods may not be the only basis for determining the value of export goods. |
|----|--|

RULE 7 DECLARATION BY THE EXPORTER

The exporter shall furnish a declaration relating to the value of export goods in the manner specified in this behalf.

RULE 8 REJECTION OF DECLARED VALUE

- 1) When the proper officer has reason to doubt the truth or accuracy of the value declared in relation to any export goods, he may ask the exporter of such goods to furnish further information including documents or other evidence and if,
 - ▶ After receiving such further information, or
 - ▶ In the absence of a response of such exporter,
 - ▶ The proper officer still has reasonable doubt about the truth or accuracy of the value so declared,
 - ▶ The transaction value shall be deemed to have not been determined in accordance with sub-rule (1) of rule 3.

At the request of an exporter, the proper officer shall intimate the exporter in writing the ground for doubting the truth or accuracy of the value declared in relation to the export goods by such exporter and provide a reasonable opportunity of being heard, before taking a final decision under sub-rule (1).

Explanation

For the removal of doubts, it is hereby declared that-

1. This rule by itself does not provide a method for determination of value, it provides a mechanism and procedure for rejection of declared value in cases where there is reasonable doubt that the declared value does not represent the transaction value; where the declared value is rejected, the value shall be determined by proceeding sequentially in accordance with rules 4 to 6.
2. The declared value shall be accepted where the proper officer is satisfied about the truth or accuracy of the declared value after the said enquiry in consultation with the exporter.
3. The proper officer shall have the powers to raise doubts on the declared value based on certain reasons which may include
 - a. The significant variation in value at which goods of like kind and quality exported at or about the same time in comparable quantities in a comparable commercial transaction were assessed.
 - b. The significantly higher value compared to the market value of goods of like kind and quality at the time of export.
 - c. The misdeclaration of goods in parameters such as description, quality, quantity, year of manufacture or production.

Problem 1 : Compute export duty from the following data:

(I) FOB price of goods : US \$ 1,00,000. (ii) Shipping bill presented electronically on 26-02-2020

(iii) Proper officer passed order permitting clearance and loading of goods for export on 04-03-2020.

(iv) Rate of exchange and rate of export duty are as under :

	Rate of Exchange	Rate of Export Duty
On 26-02-2020	1 US \$ = ₹ 55	10%
On 04-03-2020	1 US\$ = ₹ 56	8%

Rate of exchange is notified for export by Central Board of Indirect Tax and Customs. Make suitable assumptions wherever required and show the working (M 13)





SOCIAL WELFARE SURCHARGE

Objective - Goods imported into India to provide and finance education, health social securities

Levy - The Social Welfare Surcharge on imported goods shall be in addition to any other duties of customs or tax or cess chargeable on such goods, under the Customs Act, 1962 or any other law for the time being in force.

Rate - 10% on aggregate of duties, taxess and cesses levied under section 12 of the Custom Act, 1962, but not including safeguard duty , countervailing duty and anti-dumping duty. (i.e. 10% of BCD)

Note:- Social Welfare Surcharge is not applicable on export goods



SEC: 19 DETERMINATIONS OF DUTY WHERE GOODS CONSIST OF ARTICLES LIABLE TO DIFFERENT RATES OF DUTY

Students
Notes



Except as otherwise provided in any law for time being in force, where goods consist of set of articles, Duty shall be calculated as follows:

DUTY WITH REFERENCE TO QUANTITY;



Article liable to duty with reference to quantity shall be chargeable to that duty. i.e. Duty is payable as follows

A : 10/kg B : 20/kg
C : 5/kg D : 2/kg.

Duty with reference to value :

IF THEY ARE LIABLE TO DUTY AT THE SAME RATE,



All articles shall be chargeable to duty at that rate. i.e. @ 10%

IF THEY ARE LIABLE TO DUTY AT DIFFERENT RATE,



All articles shall be chargeable to duty at the **highest rate**. [Even though some article are at NIL rate] i.e. 10%

But if the importer

- ➔ produces evidence to the satisfaction of the proper officer or
- ➔ the evidence is available regarding the value of any of the articles liable to different rates of duty,

such article shall be chargeable to duty separately at the rate applicable to it.

Assessment of accessories supplied with main equipment:

Accessories of any article which satisfy the condition of Accessories (conditions) rules, 1963, made in this behalf are **chargeable to duty at the same rate as that of the main article**.

Accessories (condition) rule, 1963:

1. Accessories of and spare parts and maintenance or repairing implements form, any article,
2. When imported along with the article shall be chargeable at the same rate of the duty as that article,
3. If proper officer is satisfied that in the ordinary course of trade:-
 - ▶ Such accessories, parts, implements are compulsorily supplied along with that article and
 - ▶ No separate charge is made for such supply, their price being included in price of the article.



Example :- Compute the assessable value for the purpose of determination of customs duty from the following data:

	US \$
Machinery imported from USA by air (FOB price)	4,000
Accessories compulsorily supplied along with the machinery	1,000
Air freight	1,200
Insurance charges	Actuals not available
Local agent's commission to be paid in Indian currency	₹ 9,300
Transportation from Indian airport to factory	₹ 4,000

Exchange rate US \$ 1 = ₹ 60

Provide explanations where necessary.





PROBLEMS FOR SELF PRACTICE

Q.1 Compute the duty payable under the Customs Act, 1962 for an imported equipment based on the following information:

- (i) Assessable value of the imported equipment US \$ 10,100
- (ii) Date of bill of entry is 25.4.20XX. Basic customs duty on this date is 10% and exchange rate notified by the CBIC is US \$ 1 = ₹ 65.
- (iii) Date of entry inwards is 21.4.20XX. Basic customs duty on this date is 20% and exchange rate notified by the CBIC is US \$ 1 = ₹ 60.
- (iv) Additional duty payable under section 3(7) of the Customs Tariff Act, 1975: 12%

Make suitable assumptions where required and show the relevant workings and round off your answer to the nearest rupee.

Answer:

Q.2. Ashish imported some goods in February, 20XX and the goods were cleared from Mumbai port for warehousing on 8th February, 20XX after assessment. Assessable value was ₹ 4, 86,000 (US \$ 10,000 at the rate of exchange ₹ 48.60 per US \$). The rate of duty on that date was 35% (assume that no additional duty is payable). The goods were warehoused at Pune and were cleared from Pune warehouse on 4th March, 20XX, when rate of duty was 30% and exchange rate was ₹ 48.75 = 1 US \$. What is the duty payable while removing the goods from Pune on 4th March, 20XX?

Answer:





- Q.3.** An importer in India imported raw materials @ US \$ 25,000 FOB. The goods were packed for which US \$ 600 were charged extra. The goods were stuffed in Container, the price of which was US \$ 2,000. Insurance charges and ocean freight of US \$ 250 and 800 respectively were paid. A commission of US \$ 500 had to be paid to a broker for arranging the deal;
1 U.S \$ = 48
- ▶ Customs Duty is 35%,
 - ▶ GST on similar goods in India is 5%.
- Determine the duty payable.

Answer:



Q. 4. Determine the Assessable Value for the Customs Act, 1962 in respect of import of a machine from UK:

(i) FOB Value	£ 6,000
(ii) Air Freight	£ 1,500
(iii) Design and Development Charges paid in UK	£ 500
(iv) Design and Development Charges paid in India	₹10,000
(v) Commission paid to Local Agents 1% of FOB Value	
(vi) Date of Bill of Entry 10-4-20XX	
(Exchange Rate notified by CBIC £ 1 = ₹ 84)	

Insurance Charges are not ascertainable.

Make assumptions where required and provide suitable explanations.

Answer:-

Students
Notes





Q.5 Mihir Limited has imported a machine from Japan at an FOB cost of 50,000 yen (Japanese). The other expenses incurred are as follows:

- (i) Freight from Japan to Indian Port 5,000 yen.
 - (ii) Insurance paid to insurer in India ₹ 2,500.
 - (iii) Designing charges paid to consultancy firm in Japan 7,500 yen.
 - (iv) M/s Mihir spent ₹ 25,000 in India for development work connected with the machine.
 - (v) Transportation cost from Indian Port to factory ₹ 7,500.
 - (vi) CBIC announced exchange rate of 1 yen = ₹ 0.59 by Notification under Section 14(3) of the Customs Act, 1962. The exchange rate prevailing on that day in the market was 1 yen = ₹ 0.4052.
 - (vii) M/s. Mihir made payment to the Bank based on an exchange rate of 1 yen = ₹ 0.5920.
 - (viii) The Commission payable to the agent in India was at 5% of the FOB price in Indian Rupees.
- The rate of Customs duty is 20%. Similar goods are subject to 12% GST in India.
Clearly showing your workings to arrive at the total Assessable value in Rupees for purposes of Levy of Customs duty.

Answer:



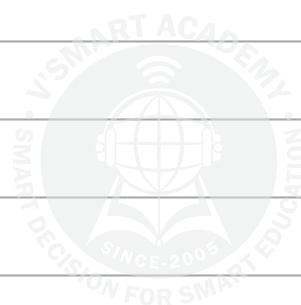
Q.6. Dhiraj' imports by air from USA a Gear cutting machine complete with accessories and spares. Its HS classification is 84.6140 and Value US \$ f.o.b. 20,000.

Other relevant date/information:

- 1) At the request of Dhiraj, US \$ 1,000 have been incurred for improving the design, etc. of machine, but is not reflected in the invoice, but will be paid by the party.
- 2) Goods are insured but premium is not shown/ available in invoice.
- 3) Freight - US \$ 6,000.
- 4) Commission to be paid to local agent in India ₹. 4,500.
- 5) Freight and insurance from airport to factory is ₹. 4,500.
- 6) Exchange rate is US \$ 1 = ₹. 45.
- 7) Duties of Customs: Basic – 25% GST - 12%,
Compute (i) Assessable value (ii) Customs duty.

Answer:

Students
Notes





- Q.7.** M/s Rakesh Industries imported by Air from USA certain goods at CIF value US \$ 6,500. Air freight US \$ 1,400 and insurance charges US \$ 100 were also paid. Bill of Entry was presented on 28-02-20XX, but the date of arrival on 10-03-20XX. Other relevant information is as follows:
Rate of Exchange as announced by CBIC - US \$ 1 = ₹ 46.80 as on 28-02-20XX and ₹ 46.60 as on 10-3-20XX.
Rate of Exchange as announced by RBI US \$ 1 = ₹ 46.70 as on 28-02-20XX and ₹ 46.50 as on 10-03-20XX.
Rate of Custom Duty* Basic Customs Duty - 30% as on 28-02-20XX and 25% as on 10-03-XX
*GST- 18% as on 28-02-XX and 18% as on 10-03-XX *
Compute the Assessable Value and Custom duty payable.

Answer:





Q. 8. Mr. Backpack imported second-hand goods from a UK supplier by air, which was contracted on CIF basic. However, there were changes in prices in the international market between the date of contract and actual importation. As a result of several negotiations, the parties agreed for a negotiated price payable as follows:

Particular	Contract Price (£)	Changed Price (£)	Negotiated Price (£)
CIF Value	5000	5800	5500
Air Freight	300	600	500
Insurance	500	650	600

Other details for computing assessable value and duty payable are tabled below:

Particular	Amount
Vendor inspection charges (inspection carried out by foreign supplier on his own, not required under contract or for making the goods ready for shipment)	£ 600
Commission payable to local agent @ 1% of FOB in local currency	

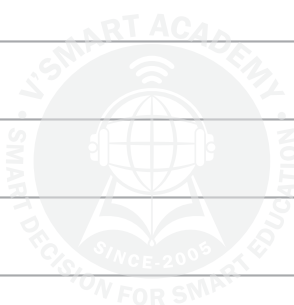
Date of bill of entry	Basic customs duty	Exchange rate in ₹ (notified by CBIC)
18.02.20XX	10%	102

Date of arrival of aircraft	Basic custom duty	Exchange rate in ₹ (notified by CBIC)
15.02.20XX	15%	98

Inter-bank rate 1 UK Pound = ₹ 106

Compute the assessable value and calculate basic customs duty payable by Mr. Backpack.

Answer:-





Q.9 : BSA & Company Ltd. has imported a machine from U.K. From the following particulars furnished by it, arrive at the assessable value for the purpose of customs duty payable.

	Particulars	US £
(i)	F.O.B cost of the machine	10,000 U.K. Pounds
(ii)	Freight (air)	3,000 U.K. Pounds
(iii)	Engineering and design charges paid to a firm in U.K.	500 U.K. Pounds
(iv)	License fee relating to imported goods payable by the buyer as a condition of sale	20% of F.O.B. cost
(v)	Materials and components supplied by the buyer free of cost valued	₹ 20,000
(vi)	Insurance paid to the insurer in India	₹ 6,000
(vii)	Buying commission paid by the buyer to his agent in U.K.	100 U.K. Pounds

Other particulars:

- (i) Inter-bank exchange rate as arrived by the authorized dealer : ₹ 98 per U.K. Pound.
- (ii) CBIC had notified for purpose of section 14 of the Customs Act, 1962, exchange rate of ₹ 100 per U.K. Pound.
- (iii) Importer paid ₹ 5,000 towards demurrage charges for delay in clearing the machine from the Airport. (Make suitable assumptions wherever required and show workings with explanations)

Answer :

Terms used in Commercial Parlance

It would be useful to know and understand the term and contents of documents used in the International trade transaction

(1) Invoice	This is the basic commercial document showing particulars regarding description of goods ➡ quantity and unit price ➡ discounts and net price ➡ names of consignor and consignee ➡ payment particulars. ➡ Contract or acceptance of order on the basis of which the goods are supplied.
(2) Packing specification	Giving particulars of the contents of each of each of the package in the consignment.
(3) Certificate of Origin	A certificate issued by the competent authority in the country of manufacture giving the extent of the manufacture in that country.
(4) Bill of Lading	A negotiable document given by the carriers of the cargo giving particulars of (a) Port of shipment (b) No. of packages covered by the consignment (c) Marks and numbers on the page (d) Name of the vessel in which the goods have been dispatched (e) Name of the consignee of the goods, (f) whether the freight has been pre-paid or is to be collected at the destination. It is a negotiable document which has to be surrendered to the carrier for getting delivery of the goods.
(5) Air Consignment Note	It is a document corresponding to Bill of Lading, in the case of cargo imported or exported by air.
(6) Indent	It is a document showing the particulars of the consignment for which the buyer has placed an order with the supplier. It normally gives particulars about (i) full description of the goods (ii) unit price (iii) mode of payment (iv) quantity required (v) delivery instructions.
(7) Quotation	It is a document, which indicates the price, the terms and other conditions on which the seller is willing to supply goods to the buyer
(8) Acceptance	It refers to the formalisation of the contract of sale between the buyer and the seller. Once the seller of the goods sends his acceptance of the order of the buyer (the indent) the contract is complete. The acceptance will inter alia contain particulars of description of the goods to be supplied, unit price, including discounts and other charges, time and terms of delivery, penal clause for breach of contract, agreed terms of payment.
(9) Letter of Credit	This is an instrument delivered by the bank intimating the seller that the buyer has instructed the bank and the bank will according to these instructions pay the seller of the goods, the bill amount for the supply of the goods on presentation of certain documents evidencing shipment of the goods.
(10) Sight draft	A document evidencing the amount of money paid for the importation.
(11) Delivery Order	An authorisation given by the local agent of the carriers, on surrender of the original negotiable copy of the bill of lading or air consignment note, directing the custodian of the cargo to deliver the consignment to the importer or his agent.
(12) Mate's Receipt	A receipt given by the First mate or First officer or cargo supervisor of the conveyance certifying the total quantity of the consignment received on board the vessel or the aircraft. A bill of lading or air consignment note is issued by the agent of the Carrier Company on surrender of the mate's receipt.
(13) Retirement of documents	The original negotiable copies of the shipment documents like invoice, packing specification, certificate of origin.
(14) Non-negotiable documents	Since retirement of the original document takes time, non negotiable documents are given to the importer to facilitate clearance.
(15) Boat/Lighterage Charge	Sometimes the vessel is unable to get a berth alongside the quay in the harbour. The goods are then transported from the ship to the shore by boats / lighters. The charges paid therefore are called Boat / Lighterage charges.
(16) Customs Broker	Since the importers / exporters may not be able to devote time and energy to clear imported goods or export goods, and since it involves running about to several organisations apart from customs, like Port, Trust, steamer agents, insurance companies, the assistance of agency organisation having adequate technical knowledge and expertise has been provided in the form of customs broker.
(17) Insurance cover	It is customary to insure all goods which are traded in the course of international trade. The general cover relates to risk on account of loss, pilferage, fire, storm etc. However, loss of goods on account of seizure of goods due to war, is a separate cover. It is therefore customary to refer to the insurance as marine risk insurance and war risk insurance. The policy and cover of such insurance is a relevant document for valuation.

