

# **The Customs Valuation (Determination of Price of Imported Goods) Rules, 1988.**

UNION OF INDIA

India

## **The Customs Valuation (Determination of Price of Imported Goods) Rules, 1988.**

### **Rule**

### **THE-CUSTOMS-VALUATION-DETERMINATION-OF-PRICE-OF-IMPORT of 1988**

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The Customs Valuation (Determination of Price of Imported Goods) Rules, 1988. Published vide Notification G.S.R. 800 (E), dated 18th July, 1988, published in the Gazette of India, Extraordinary Part 2, Section 3(i), No. 394, dated 18th July, 1988 (w.e.f. 16th August, 1988). Notification No. 51/88-NT-Cus, dated the 18th 1988. - In exercise of the powers conferred by Section 156 of the Customs Act, 1962 (52 of 1962), read with Section 22 of General Clauses Act, 1897 (10 of 1897), and in supersession of the Customs Valuation Rules, 1963, except as respect things done or omitted to be done before such supersession, the Central Government hereby makes by following rules, namely :

### **1. Short title, commencement and application.**

(1) These rule may be called the Customs valuation (Determination of Price of Imported Goods) Rules, 1988. (2) They shall come into force on the 16th August, 1988. (3) They shall apply to imported goods where a duty of customs is chargeable by reference to their value.

### **2. Definitions.**

(1) In these rules, unless the context otherwise requires, (a) [ ] [Substituted by M.F. (D.R.) Notification No. 26/95-Custom (KT.), dated 24th April, 1995.] "computed value" means the value of imported goods determined in accordance with rule 7-A of these rules; (aa) "deductive value" means the value determined in accordance with rule 7 of these rules; (b) "goods of the same class or kind", means imported goods that are within a group or range of imported goods produced by a particular industry or industrial sector and includes identical goods or similar goods; (c) "identical goods"

means imported goods (i) which are same in all respects, including physical characteristics, quality and reputation as the goods being valued except for minor differences in appearance that do not affect the value of the goods; (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; (d) "produce" includes grown, manufactured and mined; (e) "similar goods" means imported goods - (i) which although not alike in all respects, have like characteristics and like component materials which enable them to perform the same functions and to be commercially interchangeable with the goods being valued having regard to the quality, reputation and the existence of trademark; (ii) produced in the country in which the goods being valued were produced; and (iii) produced by the same person who produced the goods being valued, 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; (f) "transaction value" means the value determined in accordance with rule 4 of these rules. (2) 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 recognised 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; or (viii) they are members of the same family. Explanation I. - The term "person" also includes legal person". Explanation II - Persons who are associated in the business of one another in that one is the sole agent or sole distributor or sole concessionaire, however described, of the other shall be deemed to be related for the purpose of these rules, if they fall within the criteria of this sub-rule. [3. Determination of the method of valuation. - For the purpose of these rules, - (i) subject to rules 9 and 10A, the value of imported goods shall be the transaction value; (ii) if the value cannot be determined under the provisions of Clause (i) above the value shall be determined by proceeding sequentially through rules 5 to 8 of these rules,]

#### **4. Transaction value.**

(1) The transaction value of imported goods shall be the price actually paid or payable for the goods when sold for export to India, adjusted in accordance with the provisions of rule 9 of these rules. (2) The transaction value of imported goods under sub-rule (1) above shall be accepted; provided that - (a) [the sale is in the ordinary course of trade under fully competitive conditions; [Inserted by Notification No. G.S.R. 652(E), dated 7.9.2001 (w.e.f. 16.8.1988)] (b) the sale does not involve any abnormal discount or reduction from the ordinary competitive price (c) the sale does not involve special discounts limited to exclusive agents; (d) objective and quantifiable data exist with regard to the adjustments required to be made, under the provisions or rule 9, to the transaction

value.](e)[ [Sub-rule (a) renumbered as Sub-rule (e) by Notification No. G.S.R. 652(E), dated 7.9.2001 (w.e.f. 16.8.1988)] there are no restrictions as to the disposition or use of the goods by the buyer other than restrictions which, -(i)are imposed or required by law or by the public authorities in India; or(ii)limit the geographical area in which the goods may be resold; or(iii)do not substantially affect the value of the goods;(f)[ [Sub-rule (b) renumbered as Sub-rule (f) by Notification No. G.S.R. 652(E), dated 7.9.2001 (w.e.f. 16.8.1988)] the sale or price is not subject to same condition or consideration for which a value cannot be determined in respect of the goods being value;(g)[ [Sub-rule (c) renumbered as Sub-rule (g) by Notification No. G.S.R. 652(E), dated 7.9.2001 (w.e.f. 16.8.1988)] 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 9 of these rules; are(h)[ [Sub-rule (d) renumbered as Sub-rule (h) by Notification No. G.S.R. 652(E), dated 7.9.2001 (w.e.f. 16.8.1988)] the buyer and seller are not related, or where the buyer and seller are related, that transaction value is acceptable for customs purposes under the provisions of sub-rule (3) below.(3)(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.] [Inserted by M.F. (D.R.) Notification No. 26/95 Custom (N.T.), dated 24th April, 1995.]Provided that in applying the values used for comparison, due account shall be taken of demonstrated difference in commercial levels, quantity levels, adjustments in accordance with the provisions of rule 9 of these rules and cost incurred by the seller in sales in which he and the buyer are not related;(c)substitute values shall not be established under the provisions of Clause (b) of this sub-rule.

## **5. Transaction value of identical goods.**

(1)(a)Subject to the provisions of rule 3 of these rules, the value of imported goods shall be the transaction value of identical goods sold for export to India and imported at or about the same time as the goods being valued.(b)In applying this rule, the transaction value of identical goods in a sale at the same commercial level and in substantially the same quantity as the goods being valued shall be used to determine the value of imported goods.(c)where no sale referred to in Clause (b) of sub-rule (1) of this rule, is found, the transaction value of identical goods sold at a different commercial level or in different quantities or both, adjusted to take account of the difference attributable to commercial level or to the quantity or both, shall be used, provided that such adjustments shall be made on the basis of demonstrated evidence which clearly establishes the reasonableness and accuracy of the adjustments, whether such adjustment leads to an increase or decrease in the value.(2)Where the costs and charges referred to in sub-rule (2) of rule 9 of these rules are included in the transaction value of identical 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 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 is found, the lowest value

shall be used to determine the value of imported goods.

## **6. Transaction value of similar goods.**

(1) Subject to the provisions of rule 3 of these rules, the value of imported goods shall be the transaction value of similar goods sold for export to India and imported at or about the same time as the goods being valued. (2) The provisions of Clauses (b) and (c) of sub-rule (1), sub-rule (2) and sub-rule (3), of rule 5 of these rules shall, mutatis mutandis, also apply in respect of similar goods. [6A. Determination of value when transaction value is not available. - If the value of imported goods cannot be determined under the provisions of rules 4, 5 and 6, the value shall be determined under the provisions of rule 7 or when the value cannot be determined under that rule, under rule 7A : Provided that the request of the importer, and with the approval of the proper officer, the order of application of rules 7 and 7A shall be reversed.] [Inserted by M.F. (D.R.) Notification No. 26/95-Custom (N.T.), dated 24th April, 1995.]

## **7. Deductive value.**

(1) Subject to provisions of rule 3 of these rules, if the goods being valued or identical or similar imported goods are sold in India, in the condition as imported at or 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 the greatest aggregate quantity to persons who are not related to the sellers in India, 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) If neither the imported goods nor identical nor similar imported goods are sold at or about the same time of importation of the goods being valued, the value of imported goods shall, subject otherwise to the provisions of sub-rule (1) of this rule, 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 ninety days after such importation. (3) (a) If neither the imported goods nor identical nor similar imported goods are sold in India 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 in the greatest aggregate quantity to persons who are not related to the seller in India. (b) In such determination, due allowance shall be made for the value added by processing and the deductions provided for in items (i) to (iii) of sub-rule (1) of this rule.

## **7A. [ Computed value. [Ibid.]**

- Subject to the provisions of rule 3 the value of imported goods shall be based on 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) in 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 9 of these rules.]

## **8. Residual method.**

(1) Subject to the provisions of rule 3 of these rules, where the value of imported goods cannot be determined under the provisions of any of the proceeding rules, the value shall be determined using reasonable means consistent with the principles and general provisions of these rules and sub-section (1) of Section 14 of the Customs Act, 1962 (52 of 1962), and on the basis of data available in India. (2) No value shall be determined under the provisions of [this rules] [Substituted by M.F. (D.R.) Notification No. 167/88 Custom (T.U.)/ICD, dated 6th September, 1988, for the words 'these rules'.] on the basis of (i) the selling price in India of the goods produced in India; (ii) a system which provides for the acceptance for customs purpose of the highest of the two alternative values; (iii) the price of the goods on the domestic market of the country of exportation; [(iii-a) the cost of production other than computed values which have been determined for identical or similar goods in accordance with the provision of rule 7-A.] [Inserted by M.F. (D.R.) Notification No. 26/95-Custom (N.T.), dated 24th April, 1995.] (iv) the price of the goods for the export to a country other than India; (v) minimum customs values; or (vi) arbitrary or fictitious values.

## **9. Costs and services.**

(1) In determining the transaction value, there shall be added to the price actually paid or payable for the imported goods, -(a) the following cost and services, to the extent they are incurred by the buyer but are not included in the price actually paid or payable for the imported goods, namely : (i) commissions and brokerage, except buying commissions; (ii) the cost of containers which are treated as being one for customs purpose with the goods in question; (iii) the cost of packing whether for labour or materials; (b) the value, apportioned as appropriate, of the following goods and services where supplied directly or indirectly by the buyer free of charge or at reduced cost for use in connection with the production and sale for export of imported goods, to the extent that such value has not been included in the price actually paid or payable, namely : (i) materials, components, parts and similar items incorporated in the imported goods; (ii) tools, dies, moulds and similar items used in the production of the imported goods; (iii) materials consumed in the production of the imported goods; (iv) engineering, development, art work, design work, and plans and sketches undertaken elsewhere than in India and necessary for the production of the imported goods; (c) royalties and licence fees related to the imported goods that the buyer is required to pay, directly or indirectly as a condition of the sale of the goods being valued, to the extent that such royalties and fees are not included in the price actually paid or payable; (d) the value of any part of the proceeds of any subsequent resale, disposal or use of the imported goods that accrues, directly or indirectly, to the seller; (e) all other payments actually made or to be made as a condition of sale of the imported goods, by the buyer to the seller, or by the buyer to a third party to satisfy an obligation of the seller, to the extent that such payments are not included in the price actually paid or payable. (2) For the purpose of sub-section (1) and sub-section (1-A) of Section 14 of the Customs Act, 1962 (52 of 1962), and these rules, the value of the imported goods shall be the value of such goods, for delivery at the time and place of importation and shall include -(a) the cost of transport of the imported goods to the place of importation; (b) loading, unloading and handling charges associated with the delivery of

the imported goods at the place of importation; and(c)the cost of insurance :[Provided that  
-(i)where the cost of transport referred to in Clause (a) is not ascertainable, such cost shall be twenty percent of the free on board value of the goods;(ii)the charges referred to in Clause (b) shall be one per cent, of the f.o.b. value of the goods plus the cost of transport referred to in Clause (a) plus the cost of insurance referred to in Clause (c) ;(iii)where the cost referred to in Clause (c) is not ascertainable, such cost shall be 1.125% of f.o.b. value of the goods :Provided further that in the case of goods imported by air, where the cost referred to in Clause (a) is ascertainable, such cost shall not exceed twenty per cent of the f.o.b. value of the goods :Provided also that where the f.o.b. value of the goods is not ascertainable, the cost referred to in Clause (a) shall be twenty per cent. of the f.o.b. value of the goods plus cost of insurance for Clause N above and the cost referred to in Clause (c) shall be 1.125% of the f.o.b. value of the goods plus cost of transport for Clause (iii) above]  
[Substituted by G.S.R. (i) 9 (E), dated 5th July 1990 [Vide Notification No. 39/90-Custom (N.T.), dated 5th July 1990 (w.e.f. 5th July 1990) for the provisions an amended by G.S.R. 851 (E), dated 10th August, 1988 [vide Notification No. 58/88-Custom (N.T.), dated 10th August, 19988] and Notification No. 71/89 (N.T.)-Custom, dated 19th December, 1989.](3)Additions to the price actually paid or payable shall be made under this rule on the basis of objective and quantifiable data.(4)No addition shall be made to the price actually paid or payable in determining the value of the imported goods except as provided for in this rule.

## 10. 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 on 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 (52 of 1962), relating to confiscation, penalty and prosecution shall apply to cases where wrong declaration, information, statement or documents are furnished under these rules.[10A. 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 4.(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).] [Inserted by M.F. (D.R.) Notification 10/98-Custom (N.T.), dated 19th February, 1998.]

## 11. Settlement of dispute.

- In case of dispute between the importer and the proper officer of customs valuing the goods, the same shall be resolved consistent with the provisions contained in sub-section (1) of Section 14 of the customs Act, 1962 (52 of 1862).

## 12. Interpretative notes.

- The interpretative notes specified in it the schedule to these rules shall apply for the interpretation of these rules. The Schedule (See rule 2) Interpretative Notes General Note - Use of generally accepted accounting principles. - "Generally accepted accounting principles" refers to the recognized consensus or substantial authoritative support within a country at a particular time as to which economic resources and obligations shall be recorded as assets and liabilities, which changes in assets and liabilities should be recorded, how the assets and liabilities and changes in them should be measured, what information should be disclosed and how it should be disclosed, and which financial statements should be prepared. These standards may be broad guidelines of general application as well as detailed practices and procedures. Notes To Rules Note to rule 2. - In rule 2 (2) (v), for the purposes of these rules, one person shall be deemed to control another when the former is legally or operationally in a position to exercise restraint or direction over the latter. Note to rule 4. - Price actually paid or payable. - 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 for the imported goods. The payment need not necessarily take the form of a transfer of money, Payment may be made by way of letters of credit or negotiable instruments. Payment may be made directly or indirectly. An example of an indirect payment would be the settlement by the buyer, whether in whole or in part, of a debt owed by the seller. Activities undertaken by the buyer on his own account, other than those for which an adjustment is provided in rule 9, are not considered to be an indirect payment to the seller, even though they might be regarded as of benefit to the seller. The costs of such activities shall not, therefore, be added to the price actually paid or payable in determining the value of imported goods. - The value of imported goods shall not include the following charges or costs, provided that they are distinguished from the price actually paid or payable for the imported goods; (a) charges for construction, erection, assembly, maintenance or technical assistance undertaken after importation on imported goods, such as, industrial plant, machinery or equipment; (b) the cost of transport after importation; (c) duties and taxes in India. The price actually paid or payable refers to the price for the imported goods. Thus the flow of dividends or other payments from the buyer to the seller that do not relate to the imported goods are not part of the customs value Rule 4(2) (a) (iii). - Among restrictions which would not render a price actually paid or payable unacceptable are restrictions which do not substantially affect the value of the goods. An example of such restrictions would be the case where a seller requires a buyer of automobiles not to sell or exhibit them prior to a fixed date which represents the beginning of a model year. Rule 4 (2) (b). - If the sale or price is subject to some condition or consideration or which a value cannot be determined with respect to the goods being valued, the transaction value shall not be acceptable for customs purposes. Some examples of this include, - (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. However, conditions or considerations relating to the production or marketing of the imported goods shall not result in rejection of the transaction value. For example, the fact that the buyer furnished the seller with engineering and plans undertaken in India shall not result in rejection of the transaction value for the purposes of rule 4. Likewise, if the buyer undertakes on his own account, even though by agreement with the seller, activities relating to the marketing of the imported goods, the value of these activities is not part of the value of imported goods nor shall such activities result in rejection of the transaction value. Rule 4 (3). - 1. Rules 4 (3) (a) and 4 (3) (b) provide different means of establishing the acceptability of a transaction value.

**2. Rules 4 (3) (a) provides that where the buyer and the seller are related the circumstances surrounding the sale shall be examined and the transaction value shall be accepted as the value of imported goods provided that the relationship did not influence the price. It is not intended that there should be an examination of the circumstances in all cases where the buyer and the seller are related. 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. For example, the proper officer of customs may have previously examined the relationship, or he may already have detailed information concerning the buyer and the seller, and may already be satisfied from such examination or information that the relationship did not influence the price.**

**3. Where the proper officer of customs is unable to accept the transaction value without further inquiry, he should give the importer an opportunity to supply such further detailed information as may be necessary to enable him to examine the circumstances surrounding the sale. In this context, the proper officer of customs should be prepared to examine relevant aspects of the transaction, including the way in which the buyer and seller organize their commercial relations and the way in which the price in question was arrived at, in order to determine whether the relationship influenced the price. Where it can be shown that the buyer and seller, although related under the provisions of rule 2 (2), buy from and sell to each other as if they were not related, this would demonstrate that the price had not been influenced by the relationship. As an example of this, if the price had been settled in a manner consistent with the normal pricing practices of the**



**industry in question or with the way the seller settles prices for sales to buyers who are not related to him, this would demonstrate that the price had not been influenced by the relationship.**

As a further example, where it is shown that the price is adequate to ensure recovery of all costs is a profit which is representative of the firm's overall profit realized over a representative period of time (e.g., on an annual basis) in sales of goods of the same class or kind, this would demonstrate that the price had not been influenced.

**4. Rule 4 (3) (b) provides an opportunity for the importer to demonstrate that the transaction value closely approximates to a "test" value previously accepted by the proper officer of customs and is therefore acceptable under the provisions of rule 4. Where a test under rule 4 (3) (b) is met, it is not necessary to examine the question of influence under [rule 4 (3) (a)] [Substituted By M.F. (D.R) F. No. 528/167/88 Custom (TU/ICD, dated 28th (October, 1988, for the words, figure and bracket 'rule 3(a)'.]. If the proper officer of customs has already sufficient information to be satisfied, without further detailed inquiries, that one of the tests provided in rule 4 (3) (b) has been met, there is no reason for him to require the importer to demonstrate that the test can be met. In rule 4 (3) (b) the term "unrelated buyers" means buyers who are not related to the seller in any particular case.**

Rule 4 (3) (b). - A number of factors must be taken into consideration in determining whether one value "closely approximates" to another value. These factors include the nature of the imported goods, the nature of the industry itself, the season in which the goods are imported, and whether the difference in values is commercially significant. Since these factors may vary from case to case, it would be impossible to apply a uniform standard, such as, a fixed percentage, in each case. For example a small difference in value in a case involving one type of goods could be unacceptable while a large difference in a case involving an other type of goods might be acceptable in determining whether the transaction value closely approximates to the "test" values set forth in rule 4 (3) (b). Notes to rule 5. - 1. In applying rule 5, the proper officer of customs shall wherever possible, use a sale of identical goods at the same commercial level and in substantially the same quantities as the goods being valued. Where no such sale is found, a sale of identical goods that takes place, under any of the following three conditions may be used : (a) a sale at the same commercial level but in different quantities; (b) a sale at a different commercial level but in substantially the same quantities; or (c) a sale at a different commercial level and in different quantity.

**2. Having found a sale under any one of these three conditions adjustments will then be made, as the case may be, for, -**

(a) quantity factors only; (b) commercial level factors only; or (c) both commercial level and factors.

**3. For the purposes of rule 5, the transaction value of identical imported goods means a value, adjusted as provided for in rule 5 (1) (b) and (c) and rule 5 (2), which has already been accepted under rule 4.**

**4. A condition for adjustment because of different commercial levels or different quantities is that such adjustment, whether it leads to an increase or a decrease in the value, be made only on the basis of demonstrated evidence that clearly establishes the reasonableness and accuracy of the adjustment, e.g., valid price lists containing prices referring to different levels or different quantities. As an example of this, if the imported goods being valued consist of a shipment of 10 units and the only identical imported goods for such a transaction value exists involved a sale of 500 units and it is recognised that the seller grants quantity discounts, the required adjustment may be accomplished by resorting to the seller's price list and using that price applicable to a sale of 10 units. This does not require that a sale had to have been made in quantities of 10 units as long as the price list has been established as being bona fide through sales at other quantities. In the absence of such an objective measure, however, the determination of a value under the provisions of rule 5 is not appropriate.**

Note to rule 6. - 1. In applying rule 6, the proper officer of customs shall wherever possible, use a sale of similar goods at the same commercial level and in substantially the same quantities as the goods being valued. For the purpose of rule 6, the transaction value of similar imported goods means the value of imported goods, adjusted as provided for in rule 6 (2) which has already been accepted under rule 4.

**2. All other provisions contained in note to rule 6 shall mutatis mutandis also apply in respect of similar goods.**

Note to rule 7. - The term "unit/price at which...goods are sold in the greatest aggregate quantity" means the price at which the greatest number of units is sold in sales to persons who are not related to the persons from whom they buy such goods at the first commercial level after importation at which such sales take place.

**2. As an example of this, goods are sold from a price list which grants favourable unit prices for purchases made in larger quantities.**

Sale quantity	Unit price	Number of sales	Total quantity sold at each price
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1-10units	100	10 sales of 5 units	65
		5 sales of 3 units	
11-25units	95	5 sales of 11 units	55
over 25 units	90	1 sale of 30 units	80
		1 sale of 50 units	

The greatest number of units sold at a price is 80, therefore, the unit price in the greatest aggregate quantity is 90.

**3. As another example of this, two sales occur. In the first sale 500 units are sold at a price of 95 currency units each. In the second sale 400 units are sold at a price of 90 currency units each. In this example, the greatest number of units sold at a particular price is 500, therefore, the unit price in the greatest aggregate quantity is 95.**

**4. A third example would be the following situation where various quantities are sold at various prices -**

(a)	Sales
Sale quantity	Unit price
40 Units	100
30 Units	90
15 Units	100
50 Units	95
25 Units	105
35 Units	90
5 Units	100

(b)	Totals
Total quantity sold	Unit price
65	90
50	95
60	100
25	105

In this example, the greatest number of units sold at a particular price is 65, therefore, the unit price in the greatest aggregate quantity is 90.

**5. Any sale in India, as described in para. 1 above to a person who supplies directly or indirectly free of charge or at reduced cost for use in connection with the production and sale for export of the imported goods any of the**

**elements specified in rule 9 (1) (1), should not be taken into account in establishing the unit price for the purposes of rule 7.**

**6. It should be noted that "profit and general expenses" referred to in rule 7 (1) should be taken as a whole. The figure for the purposes of this deduction should be determined on the basis of information supplied by or on behalf of the importer unless his figures are inconsistent with those obtaining in sales in India, of imported goods of the same class or kind. Where the importer's figures are inconsistent with such figures, the amount for profit and general expenses may be based upon relevant information other than that supplied by or on behalf of the importer.**

**7. The "general expenses" include the direct and indirect costs of marketing the goods in question.**

**8. Local taxes payable by reason of the sale of the goods for which a deduction is not made under the provisions of rule 7 (1) (iii) shall be deducted under the provisions of rule 7(1) (i).**

**9. In determining either the commissions or the usual profits and general expenses under the provision of rule 7 (1), the question whether certain goods are " of the same class or kind" as other goods must be determined on a case-by-case basis by reference to the circumstances involved. Sales in India, of the narrowest group or range of imported goods of the same class or kind, which includes the goods being valued, for which the necessary information can be provided, should be examined. For the purposes of rule 7 "goods of the same class or kind" includes goods imported from the same country as the goods being valued as well as goods imported from other countries.**

**10. For the purposes of rule 7 (2) the "earliest date" shall be the date by which sales of the imported goods or of identical or similar imported goods are made in sufficient quantity to establish the unit price.**

**11. Where the method in rule 7 (3) is used, deductions made for the value added by further processing shall be based on objective and quantifiable data relating to the cost of such work. Accepted industry formulas, recipes, methods of construction, and other industry practices would form the basis**

**of the calculations.**

**12. It is recognized that the method of valuation provided for in rule 7 (3) would normally not be applicable when, as a result of the further processing, the imported goods lose their identity. However there can be instances where, although the identity of the imported goods is lost, the value added by the processing can be determined accurately without unreasonable difficulty. On the other hand there can also be instances where the imported goods maintain their identity but form such a minor element in the goods sold in the country of importation that the use of this valuation method would be unjustified. In view of the above, each situation of this type must be considered on a case-by-case basis.**

[Note to Rule 7A.] [Inserted by M.F.(D.R.) Notification 16/95-Custom(N.T.), dated 24th April, 1995.] - 1. As a general rule, value of imported goods is determined under these rules on the basis of information readily available in India. In order to determine a computed value, however, it may be necessary to examine the costs of producing the goods being valued and other information which has to be obtained from outside India. Furthermore, in most cases, the producer of the goods will be outside the jurisdiction of the proper officer. The use of the computed value method will generally be limited to those cases where the buyer and seller are related, and the producer is prepared to supply to the proper officer the necessary castings and to provide facilities for any subsequent verification which may be necessary.

**2. The "cost or value" referred to in Clause (a) of rule 7A is to be determined on the basis of information relating to the production of the goods being valued supplied by or on behalf of the producer. It is to be based upon the commercial accounts of the producer, provided that such accounts are consistent with the generally accepted accounting principles applied in the country where the goods are produced.**

**3. The "cost or value" shall include the cost of elements specified in clauses (1) (a)(ii) and (1) (a)(iii) of rule 9. It shall also include the value, apportioned as appropriate under the provisions of the relevant note to rule 9, of any element specified in rule 9(1)(b) which has been supplied directly or indirectly by the buyer for use in connection with the production of the imported goods. The value of the elements specified in rule 9(1)(b) (iv) which are undertaken in India shall be included only to the extent that such elements are charged to the producer. It is to be understood that no cost or value of the elements referred to in this paragraph shall be counted twice in**

**determining the computed value.**

**4. The "amount for profit and general expenses" referred to in Clause (b) of rule 7A is to be determined on the basis of information supplied by or on behalf of the producer unless the producer's figures are inconsistent with those 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.**

**5. It should be noted in this context that the "amount for profit and general expenses" has to be taken as a whole. It follows that if, in any particular case, the producer's profit figure is low and his general expenses are high, the producer's profit and general expenses taken together may nevertheless be consistent with that usually reflected in sales of goods of the same class or kind. Such a situation might occur, for example, if a product were being launched in India and the producer accepted a nil or low profit to offset high general expenses associated with the launch. Where the producer can demonstrate a low profit on his sales of the imported goods because of particular commercial circumstances, his actual profit figures should be taken into account provided that he has valid commercial reasons to justify them and his pricing policy reflects usual pricing in the branch of industry concerned. Such a situation might occur for example, where producers have been forced to lower prices temporarily because of an unforeseeable drop in demand, or where they sell goods to complement a range of goods being produced in India and accept a low profit to maintain competitiveness. Where the producer's own figures for profit and general expenses are not consistent with those 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, the amount for profit and general expenses may be based upon relevant information other than that supplied by or on behalf of the producer of the goods.**

**6. The "general expenses" referred to in Clause (b) of rule 7A covers the direct and indirect costs of producing and selling the goods for export which are not included under Clause (a) of rule 7A.**

**7. Whether certain goods are " of the same class or kind" as other goods must be determined on a case-by-case basis with reference to the circumstances involved. In determining the usual profits and general expenses under the provisions of rule 7A, sales for export to India of the narrowest group or range of goods, which includes the goods being valued, for which the necessary information can be provided, should be examined. For the purposes of rule 7A "goods of the same class or kind" must be from the same country as the goods being valued.**

Note to rule 8. - 1. Value of imported goods determined under the provisions of rule 8 should, to the greatest extent possible, be based on previously determined customs values.

**2. The methods of valuation to be employed under rule 8 may be those laid down in [rules 4 to 7A] [Substituted by M.F.(D.R.) Notification 26/95-Custom (N.T.), dated 14th April, 1995.] inclusive, but a reasonable flexibility in the application of such methods would be in conformity with the aims and provisions of rule 8.**

**3. Some examples of reasonable flexibility are as follows :**

(a) Identical goods. - The requirement that the identical goods should be imported at or about the same time as the goods being valued could be flexibly interpreted; identical imported goods produced in a country other than the country of exportation of the goods being valued could be the basis for customs valuation; customs values of identical imported goods already determined under the proviso of [rule 7 and 7-A] [Ibid] could be used. (b) Similar goods. - The requirement that the similar goods should be imported at or about the same time as the goods being valued could be flexibly interpreted; similar imported goods produced in a country other than the country of exportation of the goods being valued could be the basis for customs valuation; customs values of similar imported goods already determined under the provisions of [rule 7 and 7-A] [Ibid] could be used. (c) Deductive method - The requirement that the goods shall have been sold in the "condition as imported" in rule 7 (1) could be flexibly interpreted, the ninety days requirement could be administered flexibly. Note to rule 9. - In rule 9 (1) (a) (i), the term "buying commissions" means fees paid by an importer to his agent for the service of representing him abroad in the purchase of the goods being valued. Rule (9) (1) (b) (ii). - 1. There are two factors involved in the apportionment of the elements specified in rule 9 (1) (b) (ii) to the imported goods, the value of the element itself and the way in which that value is to be apportioned to the imported goods. The apportionment of these elements should be made in a reasonable manner appropriate to the circumstances and in accordance with generally accepted accounting principles.

**2. Concerning the value of the element, if the importer acquires the element from a seller not related to him at a given cost, the value of the element is that cost. If the element was produced by the importer or by a person related to him, its value would be the cost of producing it. If the element had been previously used by the importer, regardless of whether it had been acquired or produced by such importer, the original cost of acquisition would have to be adjusted downward to reflect its use in order to arrive at the value of the element.**

**3. Once a value has been determined for the element it is necessary to apportion that value to the imported goods. Various possibilities exist. For example, the value might be apportioned to the first shipment if the importer wishes to pay duty on the entire value at one time. As another example, the importer may request that the value be apportioned over the number of units produced up to the time of the first shipment. As a further example, he may request that the value be apportioned over the entire anticipated production where contracts of firm commitments exist for the production. The method of apportionment used will depend upon the documentation provided by the importer.**

**4. As an illustration of the above, an importer provides the producer with a mould to be used in the production of the imported goods and contracts with him to buy 10,000 units. By the time of arrival of the first shipment of 1,000 units, the producer has already produced 4,000 units. The importer may request the proper officer of customs to apportion the value of the mould over 1,000 units, 4,000 units or 10,000 units.**

Rule (9) (1) (b) (iv). - 1. Additions for the elements specified in rule 9 (1) (b) (iv) should be based on objective and quantifiable data. In order to minimize the burden for both the importer and proper officer of customs in determining the values to be added, data readily available in buyer's commercial record system should be used in so far as possible.

**2. For those elements supplied by the buyer which were purchased or leased by the buyer, the addition would be the cost of the purchase or the lease. No addition shall be made for those elements available in the public domain, other than the cost of obtaining copies of them.**



**3. The case with which it may be possible to calculate the values to be added will depend on a particular firm's structure and management practice, as well as its accounting methods.**

**4. for example, it is possible that a firm which import a variety of products from several countries maintains the records of its design centre outside the country of importation in such a way as to show accurately the costs attributable to a given product. In such cases, a direct adjustment may appropriately be made under the provisions of rule 9.**

**5. In another case, a firm may carry the cost of the design centre outside the country of importation as a general overhead expense without allocation to specific products. In this instance, an appropriate adjustment could be made under the provisions of rule 9 with respect to the imported goods by apportioning total design centre costs over total production benefiting from the design centre and design such apportioned cost on a unit basis to imports.**

**6. Variations in the above circumstances will, of course, require different factors to be considered in determining the proper method of allocation.**

**7. In cases where the production of the element in question involves a number of countries and over period of time, the adjustment should be limited to the value actually added to that element outside the country of importation.**

Rule (9) (1) (c). - The royalties and licence fees referred to in rule 9 (1) (c) may include among other things, payments in respects to payments, trademarks and copyrights. However, the charges for the right to reproduce the imported goods in the country of importation shall not be added to the price actually paid or payable for the imported goods in determining the customs value.

**2. Payments made by the buyer for the right to distribute or resell the imported goods shall not be added to the price actually paid or payable for the imported goods if such payments are not a condition of the sale for exports to the country of importation of the imported goods.**

Rule (9) (3). - Where objective and quantifiable data do not exist with regard to the additions required to be made under the provisions of rule 9, the transaction value cannot be determined under the provisions of rule 4. As an illustration of this, a royalty is paid on the basis of the price in a

sale in the importing country of a litre of a particular product that was imported by the kilogram and made up into a solution after importation. If the royalty is based partially on the imported goods and partially on other factors which have nothing to do with the imported goods (such as when the imported goods are mixed with domestic ingredients and are no longer separately identifiable, or when the royalty cannot be distinguished from special financial arrangements between the buyer and the seller) it would be inappropriate to attempt to make an addition for the royalty. However, if the amount of this royalty is based only on the imported goods and can be readily quantified, an addition to the price actually paid or payable can be made.[Substituted by notification No. 67/91. Cus (N.T), dated 1st October, 1991 (w.e.f. 1st October, 1991) for sub-rule I.][Substituted by Notification No. G.S.R. 652(E), dated 7.9.2001 (w.e.f. 16.8.1988)]