

How to Calculate Custom Duty

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When goods are imported or exported, the goods are subject to import duty and export duty respectively. It is levied either on specific duty or on ad valorem basis. Specific duty is levied on the quantity of goods and ad valorem duty is imposed on the value of goods. To apply ad valorem one must know the transaction value of goods.

Transaction value in case of Export

It will be the price actually paid or payable for the goods when sold for export from India for the delivery at the time and place of exportation where the buyer and seller of the goods are not related and the price is a sole consideration for the sale. The value in foreign currency is converted in to Indian currency at the exchange rate given by Central Board of Indirect Taxes and Customs (CBIC) and the rate shall be the rate prevalent on date on which a shipping bill/bill of export has been presented.

Transaction value in case of Import

The transaction value in case of import will be price actually paid or payable for the goods when sold for export to India for delivery at the time and place of importation where the buyer and seller of the goods are not related and the price is a sole consideration for the sale. The value in foreign currency is converted in to Indian currency at the exchange rate given by Central Board of Indirect Taxes and Customs (CBIC) and the rate shall be the date of bill of entry has been filed under section 46. In addition to price the value also include the any amount including the following

- Commission and brokerage
- Engineering and design work'
- Royalties and license fees
- Cost of transportation to the place of importation
- Insurance
- Loading, unloading and handling charges.

The cost and services will be added in the price according to rules specified in following tables

Assessable value in case of Import

<i>Step 1</i>	Transaction Value (it is FOB and a few adjustments)	Xxx
<i>Step 2</i>	Add cost of transport (including demurrage)associated with the delivery of imported goods to the place of importation (See table 2 for explanation to step 2 *)	Xxx
<i>Step 3</i>	Add Cost of insurance cover to the place of importation (if cost of insurance cover is not ascertainable , it will be 1.125% of FOB (see table3 explanation to step 3 **)	Xxx
<i>Step 4</i>	Total (STEP 1 + STEP 2 +STEP 3) -it may be termed as CIF (assessable value)	Xxx

Table 2: Explanation to step 2* (Cost of transport)

Where this cost is not ascertainable	such cost shall be 20% of the FOB value
Good imported by Air	Ascertainable cost in step 2 shall not exceed 20% of FOB of goods.
Goods imported by Other Mode	If transport cost is ascertainable then such cost otherwise cost is 20 % of FOB
If FOB is not ascertainable but sum of FOB and cost of insurance is known	Cost in step 2 is @20 % of such sum i.e., 20% of (FOB + cost of Insurance)

**Table 3 Explanation to step 3

If FOB is not ascertainable but sum of FOB and cost in step 2 is known	Cost of Insurance shall be 1.125 % of such sum
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If assessing officer is not satisfied with the transaction value presented by the importer on certain grounds he can reject the transaction value and can calculate the value on the basis of Customs valuation Rules.

Q1 Find out assessable value (AV)

	Case 1	Case 2	Case 3
Price Charged by exporter (in Rs)	45,00,000	45,00,000	800000
Cost of transportation to India by Air (in Rs)	11,42,000	---	100000
Cost of transportation to India by Ship (in Rs)	---	11,42,000	-
Cost of Insurance from exporting country in India (in Rs)	60000	Not available	20000

Solution to Q1

	Case 1	Case 2	Case 3
Transaction value (FOB)	4500000	45,00,000	800000
Add cost of transport	900000 #	11,42,000 *	100000 ***
Add cost of insurance	60000	50,625 **	20000
Assessable Value	5460000	56,92,625	920000

If good are imported by air then cost of transport cannot exceed 20 % of FOB, (20 % of FOB or 1142000 whichever is less)

* If goods are imported by mode other than air the maximum limit of 20 % of FOB is not applicable.

**when insurance cost is not available it is 1.125% of FOB (1.125 % of 4500000)

*** As goods are imported by air then cost of transport is 20 % of FOB or 100000 whichever is less

How to Find out Custom Duty

Proforma Showing Computation of Customs Duty		
Assessable Value u/s 14(1) or Tariff Value u/s 14(2) of Customs Act	A	XXX
Add Basic duty of customs u/s 12 on (A) above	B	XXX
Add Social Welfare Surcharge (SWS) on Basic Customs duty @ 10 % of (B)	C	XXX
Value for the purpose of levy of Integrated Tax u/s 3(7) and GST Compensation Cess u/s 3(9) (A+B+C)	D	XXX
Add Integrated tax u/s 3(7) at the applicable rate on (D)	E	XXX
Add GST compensation cess u/s 3(9) at the applicable rate on (D)	F	XXX
Total cost of Imported Goods (D + E +F)	G	XXX
Total Customs Duty Payable= (G-A)		XXX

Please Note: The Notification No. 13/2018-Customs dated 2-2-2018 seeks to exempt Integrated Tax and GST Compensation Cess on imported goods from the whole of levy of Social Welfare Surcharge (SWS).

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Source: (Image captured from reference book), CA Dr K M Bansal, GST and Customs, University Edition, Taxmann publications, page 21.4

Example: 1

The assessable value (AV) of imports is Rs 100000. The BCD (basic custom duty) is @ 10 %. IGST is payable @ 12%. Compensation Cess is 10%, SWS is 10%.

Calculate IGST, Compensation Cess and Total custom duty.

Solution 1

AV of goods imported	100000
Basic Custom duty 10 % of 100000	10000
+ SWS (10 % of BCD, 10 % of 10000)	1000

Custom duty	11000
	+ 11000

Total value for levy of IGST and compensation Cess	111000
+ IGST (12 % of 111000)	13320
+ GST compensation Cess 10 % of 111000	11100

	24420
	+ 24420

Total landed Cost	135420
Total Custom Duty = (135420-100000) = 35420	

Example 2

AB Industries imported goods from Bangladesh in a vehicle. Determine the rate of import duty from the following information

Date	Particulars	Rate of Custom, Duty
10-01-2020	Date of filing of Bill of entry	09%
16-01-2020	Date of arrival of vehicle	10%
22-01-2020	Date on which goods were allowed to be cleared from the custom station	12%
23-01-2020	Date of payment of the value of the goods imported	13%

Solution 2

In case of goods have been imported in vehicle, the rate of duty shall be the rate in force on the date on which bill of entry is presented or the date on which arrival of vehicle takes place whichever is later.

Hence relevant date for determination of the rate of import duty is 16-1-2020 and the rate of import duty applicable is 10 %

Example 3

Determine the exchange rate and the rate of duty to be considered while computing the assessable value for export duty in respect of following data

-Shipping bill presented electronically on 05-01-2020

-Proper officer passed order permitting clearance and loading of goods for export (export order on 15-01-2020).

-Rate of exchange and rate of export duty are as under

	Rate of Exchange	Rate of Export Duty
05- 01-2020	1US \$= Rs 70	9%
15-01-2020	1US \$= Rs 72	10%

Solution 3

Exchange rate is 1US \$= Rs 70 as Assessable value is calculated with reference to rate of exchange notified by CBEC on the date of presentation of shipping bill of export (rate prevailing on 05- 01- 2020)

Rate of Duty is 10 %

In case of goods entered for export, the rate of duty prevalent on the date on which the proper officer makes an order permitting clearance and loading of goods for exportation is considered.

(Duty prevailing on 15-01-2020).

References

- CA Dr K M Bansal, GST and Customs, University Edition, Taxmann publications
 - Dr Vinod Kumar Singhania, Students Guide to GST and Custom Law, Taxmann Publications
 - Dr Sonal Babbar, Rasleen Kaur, Kritika Khurana, Goods and Services Tax (GST) and Custom Law, Scholar Tech Press, MKM Publishers Pvt Ltd
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