

Problems in Customs Valuation

Note: Consider Appropriate Education cess in all Problems

Problem No. 1

Compute the Customs duty liability as per the provisions of the Customs Act, 1962, from the following information. Make suitable assumptions and indicate the same in your answer: Product Imported - 'X' Total FOB Value of the goods - US \$ 74000 Quantity Imported - 100 MTs. Ocean freight - US \$ 10000 Insurance - US \$ 740 Landing charges - 1% of CIF value Exchange rate - 1 US

\$ = Rs. 37. Date of presentation of Bill of Entry - 28.02.2009 Date of Entry Inwards of the Vessel - 03.03.2009 - Customs duty Rates on 28-2-2009 - (i) Basic Customs Duty 30% (ii) Countervailing Duty (Additional Duty) 12%. - Customs duty rates on 3.3.2009 - (i) Basic Customs Duty 25%(ii) Countervailing Duty (Additional Duty) 8%. How much Cenvat can be availed by importer, if he is manufacturer? Will your answer change if the actual cost of Freight and Insurance is not available?

Solution	
Computation of Customs value and Duty payable	
Particulars	US \$
F O B Value of Goods	74,000.00
Add:	
Freight	10,000.00
Insurance	740.00
	84,740.00
	Rs
Convert in to INR 1 \$=37 (CIF Value)	31,35,380.00
Add: 1% towards landing	31,353.80
Total C I F (Assessable Value)	31,66,733.80
Customs Duty payable	
Basic Customs Duty 25%	7,91,683.45
Sub Total	3,958,417.25
Countervailing duty u/s 3 (1) @ 8.24% on Rs.3958417.25	3,26,173.58
Education Cess 3% On Rs. 1117857.03 (791683.45 +326173.58) =	33,535.71
Landed Cost in India	43,18,126.54
Countervailing duty u/s 3(5) @ 4%	1,72,725.06
Total customs duty payable (791683.45+326173.58+33535.71+172725.06)	13,24,117.80
The manufacturer can avail cenvat credit on CVD u/s 3(1). And 3(5) including EC (326173.58+172725.06).	4,98,898.64

When actual freight and insurance is not given, freight should be taken at 20% of FOB and Insurance should be taken at 1.125% of F O B, the answer will change accordingly.

Problem No. 2

Indirect taxes Problems and Solutions /May -June/ Nov- Dec 2011 Exam

Some spares were imported by air from Germany at CIF value of 1,200 DM, which included airfreight of 380 DM and insurance charges of 20 DM. If exchange rate is 23.40 Rs. = 1 DM, find the Customs Value. Rate of customs duty is 20%, Excise duty chargeable on similar goods in India is 16% as per tariff rate. However, as per an exemption notification, the effective rate of excise duty is 8%. Find the customs duty payable. How much Cenvat can be availed by importer, if he is manufacturer?

Solution	
Computation of Customs value and Duty payable	
C I F value give	1,200
Less Freight	380
Less Insurance	20
F O B	800
Particulars	
F O B Value of Goods	800.00
Add:	
Freight 20% of F O B or actual Which ever is less	160.00
Insurance	20.00
	980.00
	Rs
Convert in to INR 1 DM=23.40 (CIF Value)	22,932.00
Add: 1% towards landing	229.32
Total C I F (Assessable Value)	23,161.32
Customs Duty payable	
Basic Customs Duty 20%	4,632.26
Sub Total	27,793.58
Countervailing duty u/s 3(1) @ 8.24% on 27793.58	2,290.19
Education Cess 3% On Rs. 6922.46 (4632.26+2290.19)	207.67
Total Landed Cost in India	30,291.45
Countervailing duty u/s 3(5) @4%	1,211.66
Total customs duty payable Rs.4632.32+2290.19+207.67+1211.66)	8,341.79
The manufacturer can avail cenvat credit on CVD U/s 3 (1) & 3(5) including EC on CVD u/s 3(1). (Rs.2290.19+1211.66 =	3,501.85

Problem No. 3

An importer has imported a machine from Japan at FOB cost of 9,00,000 Yens. Other details are as follows:

- (a) Freight from Japan to Indian port was 18,000 Yens.
- (b) Transit insurance charges were 1% of FOB value.
- (c) Design and development charges of 90,000 Yens were paid to a consultancy firm in Japan for design of machinery.
- (d) Packing charges of 22,000 Yen were charged extra.
- (e) Rs. 20,000 was spent in design cost on machine in India.

Indirect taxes Problems and Solutions /May -June/ Nov- Dec 2011 Exam

- (f) An amount of 98,500 Yen was payable to Japanese manufacturer towards charges for installation and commissioning the machine in India.
- (g) Rate of exchange as announced by RBI was: 1 yen = Rs. 0.309
- (h) Rate of exchange as announced by Central Government by notification under section 14 (3) (a) (i): 1 Yen = 0.302 Rs
- (i) Customs duty was 20% Excise duty on similar machinery in India would be 16%.

Find the customs duty payable. How much Cenvat can be availed by importer, if he is manufacturer?

Solution	
Computation of Customs value and Duty payable	
Particulars	Yen
F O B Value of Goods	9,00,000.00
Add:	
Freight	18,000.00
Insurance	9,000.00
Design and development	90,000.00
Packing	22,000.00
	10,39,000.00
	Rs
Convert in to INR 1 yen=0.302 (CIF Value)	3,13,778.00
Add: 1% towards landing	3,137.78
Total C I F (Assessable Value)	3,16,915.78
Customs Duty payable	
Basic Customs Duty 20%	63,383.16
Sub Total	3,80,298.94
Countervailing duty @ 16.48% on 380298.94	62,673.26
Education Cess 3% on Rs.126056.42 (63383.16 + 62673.26)	3,781.69
Landed Cost India	4,46,753.89
Countervailing duty u/s 3(5) @4%	17,870.16
Total customs duty payable Rs.63383.16+62673.26+3781.69+17870.16)	1,47,708.27
The manufacturer can avail cenvat credit on CVD U/s 3 (1) & 3(5) including EC on CVD u/s 3(1) . (Rs 62373.16+17870.16)	80,543.42

Problem No. 4

'A' 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 importer, 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) Freight - US \$ 6,000. (3) Goods are insured but premium is not shown/available in invoice. (4) Commission to be paid to local agent in India Rs. 4,500. (5) Freight and insurance from airport to factory is Rs. 4,500. (6) Exchange rate is US \$ 1 = Rs. 45. (7) Duties of Customs: Basic – 20% CVD – 16% Compute (i) Assessable value (ii) Customs duty. How much Cenvat can be availed by importer, if he is manufacturer?

Solution	
Computation of Customs value and Duty payable	
Particulars	US \$

Indirect taxes Problems and Solutions /May -June/ Nov- Dec 2011 Exam

F O B Value of Goods	20,000.00
Add:	
Freight 20% of F O B or actual WEL	4,000.00
Insurance 1.125% of FOB	225.00
design of machine	1,000.00
	25,225.00
	Rs
Convert in to INR 1 \$=45	11,35,125.00
Add Local agent commission in India	4,500.00
CI F	11,39,625.00
Add: 1% towards landing	11,396.25
Total C I F (Assessable Value)	11,51,021.25
Customs Duty payable	
Basic Customs Duty 20%	2,30,204.25
	13,81,225.50
Countervailing duty @ 16.48%	2,27,625.96
Education Cess 3% on Rs.457830.21 (230204.25+227626.96)	13,734.91
Landed Cost India	16,22,586.37
Countervailing duty u/s 3(5) @4%	64,903.45
Total customs duty payable Rs 230204.25+227625.96+13734.91+64903.45	5,36,468.57
The manufacturer can avail cenvat credit on CVD U/s 3 (1) & 3(5) including EC on CVD u/s 3(1) . (Rs 227625.96 +64903.45)	2,92,529.42

CA.N. Raja Sekhar.FCA DISA (ICAI) Chennai rajdhost @ yahoo.com Mobile 9444019860

Problem No. 5

Determine the assessable value and customs duty amount from the following data: # Name of the raw material—X # FOB value – Euro 1 million # Ocean freight – Actual data not available # Ocean Insurance – Actual data not available # Freight from sea port to godown paid in India Rs. 10,000 # Transit insurance in India – Rs. 2,000 # Selling commission paid to agent in India – 5% # Royalty on manufacture and sale of final product payable to foreign collaborator – 5% # Interest payable on raw material imported at 180 days credit (on FOB value) 12% p.a. # Dividend paid to the foreign supplier of raw material on their equity participation for the year 2001-02 - Rs. 2 per share on 1 million shares of face value Rs. 10/ share. # Importer supplied design and drawings worth Euro 10,000 to the foreign raw material supplier. # Landing charges as per Customs provisions # Customs duty rates: BCD - 20%, CVD - 16%,# Exchange rate: 1 Euro = Rs. 42. How much Cenvat can be availed by importer, if he is manufacturer?

Solution	
Computation of Customs value and Duty payable	
Particulars	Euro
F O B Value of Goods	10,00,000.00
Add:	
Freight 20% of F O B	2,00,000.00
Insurance 1.125% of FOB	11,250.00
Selling agent commission in India 5%	50,000.00

Indirect taxes Problems and Solutions /May -June/ Nov- Dec 2011 Exam

Design and drawing	10,000.00
	12,71,250.00
	Rs
Convert in to INR 1 euro=42 (C I F)	5,33,92,500.00
Add: 1% towards landing	5,33,925.00
Total C I F (Assessable Value)	5,39,26,425.00
Customs Duty payable	
Basic Customs Duty 20%	1,07,85,285.00
	6,47,11,710.00
Countervailing duty @ 16.48%	1,06,64,489.81
Education Cess 3% on Rs 21449774 (10785285+10664489)	6,43,493.24
Landed Cost India	7,60,19,693.05
Countervailing duty u/s 3(5) @4%	30,40,787.72
Total customs duty payable Rs 10785285+10664489.81+643493.24+3040787.72	1,44,69,567.07
The manufacturer can avail cenvat credit on CVD U/s 3 (1) & 3(5) including EC on CVD u/s 3(1) . (Rs 10785285+3040787.72) =	1,37,05,277.53

Problem No. 6

Determine the total Customs Duty payable from the following data - Quantity imported: 100 MTs, FOB value: Swiss Franc: 10000, AIR Freight: Swiss Franc: 2500, Insurance: Data not available, Exchange rate: 1 Swiss Franc = Rs. 34, Rate of BCD 30%, Rate of Cenvat under First Schedule to CETA: 16%, Rate of SED under Second Schedule to CETA: 16%, Rate of AED (GSI) under Additional Duties of Excise (GSI) Act : Rs. 10/kg, Rate of NCCD 1%, How much Cenvat can be availed by importer, if he is manufacturer?

Solution	
Computation of Customs value and Duty payable	
Particulars	Swiss Franc
F O B Value of Goods	10,000.00
Add:	
Freight 20% of F O B or actual Whichever is less	2,000.00
Insurance 1.125 of F O B	112.50
	12,112.50
	Rs
Convert in to INR 1swiss franc=34	4,11,825.00
Add: 1% towards landing	4,118.25
Total C I F (Assessable Value)	4,15,943.25
Customs Duty payable	
Basic Customs Duty 30%	1,24,782.98
	5,40,726.23
Countervailing duty equal to	
First Schedule of CETA 16.48%	89,111.68

Indirect taxes Problems and Solutions /May -June/ Nov- Dec 2011 Exam

Second Schedule of CETA 16.48%	89,111.68
National calamity contingent duty 1.03%	5,569.48
Addl. ED on GST Rs. 10.30 per kg	10,30,000.00
Education Cess 3% on Rs.1338575.82 (Rs.124782.98 +89111.68+89111.68+5569.48+1030000)	40,157.27
Landed Cost in India	17,94,676.34
Countervailing duty u/s 3(5) @4%	7 1,787.05
Total customs duty payable (Rs.124782.98 +89111.68+89111.68+5569.48+1030000+ 40157.27+ 71787.05)	14,50,520.15

Problem No. 7

An importer provided the producer with a mould to be used in production of imported goods. The cost of mould is Rs.5, 00,000 which is expected to produce 25,000 pieces. The importer has imported 5,000 pieces in the first lot. Is it necessary to add the cost of mould in transaction value ? If yes, what will be the amount to be added? The importer is expecting an increase in the rate of customs duty next month, so he has requested to the proper officer that if cost of mould is required to be added in transaction value, the full cost of mould, i.e., Rs.5,00,000 may be added in the transaction value of first lot of 5,000 pieces itself. Is his demand valid in law ?

Solution	
Value of mould to be includible in valuation will be	
Total cost of the mould	500000
No units mould should produce	25000
Cost per unit = 500000/25000	20
No units imported	5000
Value includible in valuation =5000 x 20	100000

CA.N. Raja Sekhar.FCA DISA (ICAI) Chennai rajdhost @ yahoo.com Mobile 9444019860

Problem No. 8

Green Gel Ltd. imports chemicals from Russia. Compute the education cess payable by the company on the basis of following data:

(i) Landed value (CIF)	Rs. 5,00,000
(ii) Customs duty	@ 16%
(iii) Countervailing duty (CVD)	@ 16%
(iv) Education cess	@3%

Solution	
Total C I F (Assessable Value)	5,00,000.00
Customs Duty payable	
Basic Customs Duty 16%	80,000.00
	5,80,000.00
Counter vailing duty @ 16.48%	95,584.00
Education Cess 3% on Rs.175584	5,267.52
(80000+95584)	

Problem No.9

Zing Yong of China exports Lithium Cell to India, the FOB price of which is one Dollar for 30 cells; however the details of Freight & Insurance were not made available. Investigation reveals that the goods are imported into India at an increased quantity. Similar cells are manufactured in India, the

Indirect taxes Problems and Solutions /May -June/ Nov- Dec 2011 Exam

cost of sales per cell of which indicates the following break-up:

Direct Material Rs. 2.00,

Direct Labour Re. 0.25, Direct

Expenses Re. 0.25, Indirect

Expenses Re. 0.50, Indirect

Labour Re. 0.25, Indirect

Expenses Re. 0.25,

Administrative Overheads Re. 0.50,

Selling and distribution overheads Re. 0.50,

Profit Margin Re. 0.50.

The exchange rate 1 \$ = Rs. 50. Is there any case to impose Safeguard Duty? If yes, what is the duty leviable? Applicable BCD 25%, CVD 16%, and CVD under section 3(5)

Solution	Rupees
F O B Value of Goods (\$ 1= Rs. 50)	50.00
Add:	
Freight-20% of F O B	10.00
Insurance 1.125% of F O B	0.56
	60.56
Add: 1% towards handling	0.61
Total C I F (Assessable Value)	61.16
Customs Duty payable	
Basic Customs Duty 25%	15.29
	76.45
Counter vailing duty @16.48%	12.60
Education Cess 3%	0.84
Total customs duty payable	28.73
Landed Cost = AV + Customs duty	89.89
CVD u/ 3(5)- 4% on above	3.60
Total Landed Cost	93.48
Landed Cost per cell - 93.48/30	3.12
Safe guard duty can be levied up to Rs.1.88 (5.00-3.12)	

Working Note Calculation of selling price in India	
Direct Material	2.00
Direct Labour	0.25
Direct Expenses	0.25
Prime Cost	2.50
Indirect Material	0.50
Indirect labour	0.25
Indirect expenses	0.25
Admin overheads	0.50
Cost of Production	4.00
Selling over head	0.50
Cost of Sales	4.50
Profit	0.50

Indirect taxes Problems and Solutions /May -June/ Nov- Dec 2011 Exam

Selling Price	5.00
---------------	-------------

Problem No. 10

An actual user imports following goods from England per S. S. Vishal: (1) Second hand numerically controlled horizontal lathe machine - Tariff heading – 84.5811, Value FOB - 1,000/- Pound Sterling (2). A. C. motors - Tariff heading – 85.0110, Value FOB - 500/- Pound Sterling. - - Other relevant data are: - Exchange rate 1 UK Pound = Rs. 65, Freight – 150 UK Pounds, Insurance – 25 UK Pounds. -

- **Rate of duty:** Basic customs duty - 25%, CVD - 16%, SAD - 4%, Ignore landing charges. - - It is found that the lathe machine is undervalued. It is proposed to load the FOB value of the lathe machine by 25%. Party does not want show cause notice and personal hearing. Compute – (i) Assessable value; (ii) Total duty payable.

Solution	
Particulars	U K Pounds
F O B of the Machinery	1,000.00
Add: Loading 25% since under valued	250.00
	1,250.00
A C Motor	500.00
Total F O B Value including motor	1,750.00
Add: Freight	150.00
Add: Insurance	25.00
CIF	1,925.00
Convert 1925 pounds @ Rs. 65	125,125.00
Basic Customs Duty 25%	31,281.25
	33,206.25
Counter vailing duty @ 16.48%	5,472.39
Education Cess 3% on Rs.36753.64 (31281.25+5472.39)	1,102.61
Landed Cost India	39,781.25
Counter vailing duty u/s 3(5) @4%	1,591.25
Total customs duty payable	
Rs 31281.25+5472.39+1102.61+1591.25	39,447.50
The manufacturer can avail cenvat credit on CVD U/s 3 (1) & 3(5) including EC on CVD u/s 3(1) . (Rs 5472.39+1591.25)	7,063.64

Students can also work Duty payable for Machine and Motor separately, By allocating Freight and insurance on the basic of FOB

Landing Charges were ignored as per Problem No.

Problem No. 11

Compute the Customs duty from the following data:

	US Dollars
Machinery imported from USA by Air (FOB) Accessories compulsorily supplied with Machine	8,000
(Electric Motor & others) (FOB)	2,000
Air Freight	3,000

Indirect taxes Problems and Solutions /May -June/ Nov- Dec 2011 Exam

Insurance	100
-----------	-----

Local agents' commission to be paid in Indian Rupees is Rs. 4,500 (say equivalent to US Dollars 100), The exchange rate is 1 US Dollars = Indian Rupees 45., Customs duty on Machinery - 25% ad valorem, Customs duty on Accessory (normal rate 30 % ad valorem), Surcharge on Customs duty - 10%, CVD - 16% (Effective Rate is 8% by a notification), SAD - 4%.

Solution

Fo B Value of Machine	8,000.00
Add: Compulsory supplied accessories along with machine	2,000.00
Total F O B Value	10,000.00
Add: Freight- Actual Rs. 3000 or 20% of F O B Rs. 2000 WEL	2,000.00
Add: Insurance	100.00
CIF	12,100.00
Converting In to INR @ Rs.45	5,44,500.00
ADD: Local Agent Commission in India	4,500.00
	5,49,000.00
Add: 1% towards landing	5,490.00
	5,49,990.00
Customs Duty payable	
Basic Customs Duty 25%	1,37,497.50
	6,87,487.50
Counter vailing duty @ 8.24%	56,648.97
Education Cess 3% on Rs.194146.47	5,824.39
(137498+56649)	
Landed Cost India	7,49,960.86
Counter vailing duty u/s 3(5) @4%	29,998.43
Total customs duty payable	
Rs 137497.5+56648.97+29998.43	2,29,969.30
The manufacturer can avail cenvat credit on CVD	
U/s 3 (1) & 3(5) including EC on CVD u/s 3(1) .	
56649 +29948.43	86,647.40

Problem No. 12

Compute (keeping in mind the provisions of the Customs Act, 1962 and Customs Tariff Act, 1975), the total customs duty payable by an importer on goods 'X' imported by sea into India, from the following details. You may, wherever appropriate, make suitable assumptions, indicating the same in your answer. -
 * Value of Goods (FOB) \$ 1,000 (Dollars) * Weight of Goods 1,000 Kg * Freight Charges \$ 100 (Dollars) * Insurance Charges \$ 20 (Dollars) * Handling Charges Rs. 200 * Exchange Rate 4 Dollars = Rs. 100 * Date of Presentation of Bill of Entry - 4.5.2008 * Date of Entry Inwards of Vessel - 1.5.2008 Rates of Customs Duty on 1.5.2008 - * Basic 20% Adv. * Education Cess -3% * Additional (CVD) 15%. * Rates of Customs Duty on 4.5.2008 - * Basic 15% Adv. * Education cess - 3%* Additional (CVD) 16%. - . - Note: Special CVD under section 3(5) of Customs Tariff Act is

Indirect taxes Problems and Solutions /May -June/ Nov- Dec 2011 Exam

applicable. No other particulars are relevant. How much Cenvat can be availed by importer, if he is manufacturer

Solution	
Computation of Customs value and Duty payable	
Particulars	US \$
F O B Value of Goods	1,000.00
Add:	
Freight	100.00
Insurance	20.00
	1,120.00
Convert in to INR 1 \$=25 (CIF Value)	28,000.00
Add: 1% towards landing	280.00
Total C I F (Assessable Value)	28,280.00
Customs Duty payable	
Basic Customs Duty 15%	4,242.00
	32,522.00
Counter vailing duty @ 16.48%	5,359.63
Education Cess 3% on Rs.9601.63	288.05
(4242+5359.63)	
Landed Cost India	38,169.67
Counter vailing duty u/s 3(5) @4%	1,526.79
Total customs duty payable	
(Rs 4242+5359.63+288.05+1526.79)	11,416.46
The manufacturer can avail cenvat credit on CVD	
U/s 3 (1) & 3(5) including EC on CVD u/s 3(1) .	
5359.63+1526.79	6,886.41

Problem No. 13

Certain goods were imported in February 2009 "Into bond" bill of entry was presented on 14th February, 2009 and goods were cleared from the port for warehousing. Assessable value was \$5,00,000. Rate of BCD 25%. Customs officer issued the order under section 60 permitting the deposit of the goods in warehouse on 21st February 2009 for 3 months. Goods were not cleared even after warehousing period was over, i.e., 21st May, 2009 and extension of time was also not obtained. Customs officer issued notice under section 72 demanding duty and other charges. Importer cleared goods on 28th June 2009. What is the amount of duty interest payable while removing the goods? Compute on the basis of following information (assume that no additional duty or special additional duty is payable)

Solution

Interest is payable from 22nd May 2009 to 28th June 2009 ie for a period of 38 days @ 15% per annum on the duty amount.

Since rate of duty and Conversion rate is not given, calculations are not made.

Problem No 14

From the following particulars, calculate assessable value and total custom duty payable:

Indirect taxes Problems and Solutions /May -June/ Nov- Dec 2011 Exam

- (i) Date of presentation of bill of entry: 20.6.2009 [Rate of BCD 25%; Exchange Rate: Rs. 43.60 and rate notified by CBEC Rs. 44.80].
- (ii) Date of arrival of goods in India: 30.6.2009 [Rate of BCD 20%; Exchange Rate: Rs. 43.90 and rate notified by CBEC Rs. 44.00].
- (iii) Rate of Additional Customs Duty: 16%.
- (iv) CIF value 2,000 US Dollars; Air Freight 500 US Dollars, Insurance cost 100 US Dollars [Land charges not ascertainable].
- (v) Education cess applicable 3%.
- (vi) Assume there is 4 % special CVD.

CA.N. Raja Sekhar.FCA DISA (ICAI) Chennai rajdhost @ yahoo.com Mobile 9444019860

Solution	
Computation of Customs value and Duty payable	
C I F value give	2,000.00
Less Freight	500.00
Less Insurance	100.00
F O B	1,400.00
Particulars	D M
F O B Value of Goods	1,400.00
Add:	
Freight 20% of F O B or actual WEL	280.00
280 or Rs. 500 W E H	
Insurance	100.00
	1,780.00
Convert in to INR @ 44.80 (CIF Value)	79,744.00
Add: 1% towards landing	797.44
Total C I F (Assessable Value)	80,541.44
Customs Duty payable	
Basic Customs Duty 20%	16,108.29
	96,649.73
Counter vailing duty @ 16.48%	15,927.88
Education Cess 3% on Rs.32.03.16	961.08
(16108.29+15927.88)	
Landed Cost India	113,538.69
Counter vailing duty u/s 3(5) @4%	4,541.55
Total customs duty payable	
Rs 16108.29+15927.88+961.08+4541.55)	37,538.80
The manufacturer can avail cenvat credit on CVD	
U/s 3 (1) & 3(5) including EC on CVD u/s 3(1) .	
(Rs 15927.88+4541.55)	20,469.42

Problem No 15

Indirect taxes Problems and Solutions /May -June/ Nov- Dec 2011 Exam

An Indian company imported certain consumer goods from abroad with MRP printed in packing cartons. In respect of similar goods manufactured in India, excise duty is payable on basis of MRP. The importer will be using the goods for further processing. Customs authorities contend that CVD will be calculated based on the MRP printed in the goods. Is this proper? Will your answer be different, if the goods are imported for retail sales?

(Ans: If goods covered imported for further process CVD is payable on the basis of transaction value not on MRP basis. On the other hand: If goods covered imported for retail sale CVD payable based on MRP)

Problem No 16

An importer has imported a machine from UK at FOB cost of 10,000 UK Pounds, Other details are as follows:

- (i) Freight from UK to Indian port was 700 pounds. (ii) Insurance was paid to insurer in India: Rs. 6,000.
- (iii) Design and development charge of 2,000 UK pounds were paid to a consultancy firm in UK.
- (iv) The importer also spent an amount of Rs. 50,000 in India for development work connected with the machinery.
- (v) Rs. 10,000 was spent in transporting the machinery from India port to the factory of importer. (vi) Rate of exchange as announced by RBI was: Rs. 68.82 = one UK pound.
- (vii) Rate of exchange as announced by CBE & C (Board) by notification under section 14(3)(a)(i); Rs. 68.70 = one UK pound.
- (viii) Rate at which bank recovered the amount from importer: Rs. 68.35 = one UK pound.
- (ix) Foreign exporters have an agent in India. Commission is payable to the agent in India Rupees @ 5% of FOB price.

Customs duty payable was 10%. If similar goods were produced in India, excise duty payable as per tariff is 24 %. There is an excise exemption notification which exempts the duty as is in excess of 16%. Find customs duty payable if (a) Improper is manufacturer using the goods himself,

CA.N. Raja Sekhar.FCA DISA (ICAI) Chennai rajdhost @ yahoo.com Mobile 9444019860

Solution	
Computation of Customs value and Duty payable	
Particulars	U K Pounds
F O B Value of Goods	10,000.00
Add:	
Freight	700.00
Insurance =6000/68.70	87.34
Design and development	10,000.00
	20,787.34
Convert in to INR @ Rs. 68.70	14,28,090.26
Local Agent commission 10000*68.70*5%	34,350.00
	14,62,440.26
Add: 1% towards landing	14,624.40
Total C I F (Assessable Value)	14,77,064.66
Customs Duty payable	
Basic Customs Duty 10%	1,47,706.47
	16,24,771.13
Countervailing duty @ 16.48%	2,67,762.28

Indirect taxes Problems and Solutions /May -June/ Nov- Dec 2011 Exam

Education Cess 3% on Rs.415468.75	12,464.06
147706.47+267762.28	
Landed Cost India	19,04,997.47
Countervailing duty u/s 3(5) @4%	76,199.90
Total customs duty payable	
(Rs 147706.47+267762.28+12464.06+76199.90)	5,04,132.71
The manufacturer can avail cenvat credit on CVD	
U/s 3 (1) & 3(5) including EC on CVD u/s 3(1) .	
(Rs 267762.28+76199.90)	3,43,962.18

Problem No. 17

Compute the assessable value and Custom duty payable from the following information : (i) F.O.B. value of machine – 8,000 UK Pounds (ii) Freight paid (air) – 2,500 UK Pounds (iii) Design and development charges paid in UK – 500 UK Pounds (iv) Commission payable to local agent @ 2% of F.O.B. in Indian Rupees (v) Date of bill of entry – 24.10.2007 (Rate BCD 20%, Exchange rate as notified by CBEC Rs. 68 per UK Pound) (vi) Date of entry inward – 20.10.2007 (Rate of BCD 18%, Exchange rate as notified by CBEC Rs. 70 per UK Pound) (vii) C.V.D. payable @ 16% plus education cess as applicable (viii) Special C. V. D. – as applicable (ix) Insurance charges actually paid but details not available (CA Final, June 2009)

Answer -

	UK Pounds	Amount Rs.
FOB Value of Machine	8,000	5,44,000.00
Add: Freight charges [Actual 2,500 restricted to 20% of FOB= 1,600 UK pounds]	1,600	1,08,800.00
Add: Transit Insurance [1.125% of FOB]	90	6,120.00
Add: Design and development charges paid in UK	500	34,000.00
Add: Selling Commission (Commission paid to Local Agent)		10,880.00
CIF Value		7,03,800.00
Add: Landing Charges (1% of CIF Value)		7,038.00
ASSESSABLE VALUE		7,10,838.00

Indirect taxes Problems and Solutions /May -June/ Nov- Dec 2011 Exam

Calculation of customs duty payable is as follows -

	Duty %	Amount	Total Duty
(A) Assessable Value Rs		710,838	
(B) Basic Customs Duty	20	142,167.60	142,167.60
(C) Sub-Total for calculating CVD '(A+B)'		853,005.60	
(D) CVD 'C' X excise duty rate	16	136,480.90	136,480.90
(E) Education cess of excise - 2% of 'D'	2	2,729.62	2,729.62
(F) SAH Education cess of excise - 1% of 'D'	1	1,364.81	1,364.81
(G) Sub-total for edu cess on customs 'B+D+E+F'		282,742.93	
(H) Edu Cess of Customs - 2% of 'G'	2	5,654.86	5,654.86
(I) SAH Education Cess of Customs - 1% of 'G'	1	2,827.43	2,827.43
(J) Sub-total for Spl CVD 'C+D+E+F+H+I'		1,002,063.22	
(K) Special CVD u/s 3(5) - 4% of 'J'	4	40,082.53	40,082.53
(L) Total Duty			331,307.75
(M) Total duty rounded to	Rs		331,308

Notes – Buyer who is manufacturer, is eligible to avail Cenvat Credit of D, E, F and K above.

A buyer, who is service provider, is eligible to avail Cenvat Credit of D, E and F above. .

A trader who sells imported goods in India after charging

Vat/sales tax can get refund of Special CVD of 4% i.e. 'K' above

Problem No 18

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 25.4.2009 basic customs duty on this date 20% and exchange rate notified by the Central Board of Excise and customs US \$ 1=Rs. 65 (iii) Date of Entry inwards 21.4.2009 basic customs duty on this date 16% and exchange rate notified by the Central Board of Excise and Customs US \$ 1 = Rs. 50. (iv) additional duty payable under Section 3(1) and (2) of the Customs Tariff Act, 1975: 15%. (v) Additional duty under Section 3(5) of the Customs Tariff Act, 1975: 4%. (vi) Educational cess @ 2% in terms of the Finance Act (No. 2), 2004 and secondary and higher educational cess @ 1% in terms of the Finance Act, 2007. Make suitable assumptions where required and show the relevant working and round off your answer to the nearest Rupee (CA Final November 2009 new syllabus) .

Answer – Foreign exchange rate relevant is 1 US \$ = Rs 65. Relevant rate of customs duty is 20%.

Calculate as per standard formula and check that total duty payable is Rs 2,97,290.

Problem No 19

- 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: (1) Quantity imported (tonnes) 20 at Unit price 260 USD CIF (2) Quantity imported (tonnes) 100 at Unit price 220 USD CIF (3) Quantity imported (tonnes) 500 at Unit price 200 USD CIF (4) Quantity imported (tonnes) 900 at Unit price 175 USD CIF (5) Quantity imported (tonnes) 400 at Unit price 180 USD CIF (6) Quantity imported (tonnes) 780 at Unit price 160 USD CIF . The rate of exchange on the relevant date was 1 US \$ = Rs. 43.00 and the rate of basic customs duty was 15% 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. (CA Final New Syllabus, November, 2008)

Indirect taxes Problems and Solutions /May -June/ Nov- Dec 2011 Exam

Answer – Valuation to be under rule 4(3) of Customs Valuation Rules i.e. value on basis of identical goods. As per the rules, lowest among values available should be taken when import is in same commercial level. Hence, only 4 and 6 above can be considered as they are at same commercial level. Lowest among them is USD 160. Hence, that should be taken [see para 32.3].

Convert in Rs to get CIF price of Rs 6,880 Add 1% landing charges (Rs 68.80) to get assessable value as Rs 6,948.80 . Calculate customs duty @ 15.45% [15% basic plus customs education cess @ 3%]. Check that duty is Rs 1,073.59, per tonne. Hence, total customs duty for 800 tonnes is 8,58,872.

Problem No 20

- From the following data, you are required to compute the customs duty payable by Sukbhir & Co: - (i) FOB value of textile machinery - 1,00,000 Euro (ii) Airfreight - 26,000 Euro (iii) Expenses incurred by seller for improving the design, at buyer-importer's request - 4,000 euro (iv) Transit Insurance - 2,000 Euro. (v) Exchange rate 1 Euro = Rs. 60 (vi) Basic duty 25%, Rate of CVD 16%, Rate of SAD 3% (vii) The price offered to the importer is a special discounted price. The buyer-importer has been specifically directed not to disclose this price to any buyer in India. Seller's normal selling price is 1,20,000 Euro (ICWAI Inter June 2010 New Syllabus)

Answer – Even if it is a special price, this will be considered for valuation under new section 14 of Customs Act, where transaction value, if genuine, has to be accepted as assessable value.

Airfreight has to be restricted to 20%. Hence, airfreight for calculation will be 20,000 Euro. Design charges (4,000) and transit insurance charges (2,000) are required to be added. Hence, CIF price is 1,26,000 Euro i.e. Rs 75,60,000 (@60 Rs = 1 Euro). Add 1% landing charges i.e. Rs 75,600. Hence, assessable value is Rs 76,35,600.

Problem No.21

An importer imported some goods for subsequent sale in India at \$ 12,000 on CIF basis. Relevant exchange rate as notified by the Central Government and RBI was Rs. 45 and Rs. 45.50 respectively. The item imported attracts basic duty at 10% and education cess as applicable. If similar goods were manufactured in India, Excise Duty payable as per Tariff is 14% plus education cess. Spl CVD is payable at applicable rates. Arrive at the Assessable value and the total duty payable thereon. What are the duty refunds/benefits available if the importer is (a) manufacturer (b) service provider (c) Trader? [CA Final May 2000 adopted]

CIF Value	=	12,000 US \$
Total CIF in Rs. @ 45.00 per US \$	=	Rs. 5,40,000
Add : Landing Charges @ 1% of CIF	=	Rs. 5,400
(A) Assessable Value	=	Rs. 5,45,400

Calculation of duty payable and check that it is Rs 172,910.

Problem No.22

- An actual user imports following goods from England per S. S. Vishal: (1) Second hand numerically controlled horizontal lathe machine - Tariff heading – 84.5811, Value FOB - 1,000/- Pound Sterling (2). A. C. motors - Tariff heading – 85.0110, Value FOB - 500/- Pound Sterling. - - Other relevant data are: - Exchange rate 1 UK Pound = Rs. 65, Freight – 150 UK Pounds, Insurance – 25 UK Pounds. - - Rate of duty : Basic customs duty - 10%, CVD - 14%, Education Cess and Spl CVD at applicable rates. - - It is found that the lathe machine is undervalued. It is proposed to load the FOB value of the lathe machine by 25%. Party does not want show cause notice and personal hearing. Compute – (i) Assessable value; (ii) Total duty payable. What are the duty refunds/benefits available if the importer is (a) manufacturer (b) service provider (c) Trader? [ICWA, December, 2001 - adapted]

Indirect taxes Problems and Solutions /May -June/ Nov- Dec 2011 Exam

Answer - Since FOB value of lathe machine is being loaded by 25% for under-valuation, the FOB Value of lathe machine for purpose of assessment is 1250 UK Pounds. Value of AC Motors is 500 UK Pounds. Thus, total FOB value for purposes of customs valuation is 1,750 UK Pounds. - - Total insurance and freight is 175 UK Pounds [freight is 150 UK Pounds and insurance is 25 UK Pounds]. This will be allocated on lathe machine and AC motors in proportion to value (as no other basis is available). Thus, allocation of freight and insurance charges will be in ratio of 1250/1750 and 500/1750, i.e. 125 UK Pounds to lathe machine and 50 UK Pounds to AC motors.

Hence, CIF value of lathe machine for purpose of customs valuation is 1,375 UK Pounds (1,250 +125) i.e. Rs 89,375 (@ Rs 65 per UK Pound) and CIF value of AC motors is 550 UK Pounds (500 + 50), i.e. Rs 35,750 (@ Rs 65 per UK Pound). Assessable Value will be CIF plus landing charges of 1%. Hence, Assessable Value of lathe is 90,269 (89,375 + 894) and AV of motors is Rs 36,107 (35,750 + 357).

The duty payable is Rs 28,618 as per formula

Problems in Duty Drawback

Problem No 1

'A' has exported under-mentioned goods under drawback claim. Determine drawback claim

S. No. of DGK Table	Description of goods & quantity exported	Value FOB. Rs	Rate of Drawback
64.01	Leather footwear Boots 200 nos.@ Rs. 1,000 per pair	2,00,000	11% of f.o.b. subject to maximum of Rs. 85 per pair
64.11	Leather chappals 2000 nos. @ Rs. 50 per pair	1,00,000	3% of f.o.b. subject to maximum of Rs. 5 per pair.
71.01	Brass Jewellery 200 kgs. @ Rs.200 per kg		Rs. 22.50 per kg of Brass content
71.05	Plastic bangles with embellishment 200 kgs @ Rs. 100 per kg		Rs. 5.00 per kg of plastic content.

On examination it is found that brass content in brass jewellery is 50% of weight and in plastic bangles the plastic content is 50% but the total weight comes to 190 kgs only. - -Compute drawback on each item and total drawback

Solution

S No of DBK	Description of goods	Rate of Drawback	Calculation	Drawback eligible
64.01	Leather footwear	11% of FOB Rs. 2lacs or Rs. 85 per pair which ever is less	22000 or Rs. 17000 Which ever is less	17000
64.11	Leather Chappals	3 % of FOB Rs.1lac or Rs.5 per pair which ever is less	3000 or Rs.10000 Which ever is less	3000
71.01	Brass Jewellery	Rs. 22.50 per Kg for Brass Content for 200 kgs	200 x 22.50 x 50%	2250
71.05	Plastic Bangles	Rs. 5 per Kg for plastic content 190 x 5x50% Content for 200 kgs	475	
Total D B K				

Eligible

22725

CA.N. Raja Sekhar.FCA DISA (ICAI) Chennai rajdhost @ yahoo.com Mobile 9444019860

Problem No 2

A' exported a consignment under drawback claim consisting of the following items: -

Particulars	Serial/ Sub-serial	FOB value	Drawback rate
(1) 200 pieces of pressure stoves mainly made of brass @ Rs. 80/piece	74.04	Rs 16,000	4% of FOB
(2) 200 kg Brass utensils @ Rs. 200 per kg	74.13	Rs 40,000	Rs. 24/kg
(3) 200 kg Art ware of brass @ Rs 300/Kg	74.22	Rs 60,000	17.50% of FOB subject to a maximum of Rs. 38/per kg.

On examination in docks, weight of brass art ware was found to be 190 Kgs and was recorded on shipping bill. Compute the drawback on each item and total drawback admissible to the party

Solution

S No of DBK	Description of goods	Rate of Drawback	Calculation	Drawback eligible
74.04	Pressure Stoves	4% of FOB Rs. 16000	16000 x 4%	640
74.13	Brass Utensils	Rs. 24 per Kg	200 x 24	4800
74.22	Art ware of Brass	17.5% of FOB Rs.60000 or Rs. 38 per kg on 190 K G which ever is less	10500 or Rs.7220 Which ever is less	7220
	Total D B K Eligible			12660

Problem No 3

An exporter has exported under-mentioned goods under drawback claim:

S .No of Dbk. Table	Description	FOB Value Rs.	Rate of Draw-back
74.24	1000 Kg handicrafts of brass @ Rs. 200 per kg	2,00,000	16.5% of FOB Value subject to maximum of Rs. 33 per kg of brass content
74.27	1000 kg of Art ware of copper @ Rs. 300 per kg	3,00,000	Rs. 33 per kg.
85.81	20,000 pc GLS Lamps @ Rs. 5 per piece	1,00,000	1% of FOB

Note: 1: On examination it is found that brass content in brass handicrafts is 80%. 2: Art ware has copper content of weight 950 kg. Compute the amount of drawback admissible taking into account the above facts

Indirect taxes Problems and Solutions /May -June/ Nov- Dec 2011 Exam

Solution				
S No	Description of goods	Rate of Drawback	Calculation	Drawback
of DBK				eligible
74.24	handicraft of brass	16.5% of FOB Rs. 2lacs or Rs.33 per kg whichever is less	33000 or Rs.26400 Which ever is less	26400
74.27	Art ware of Copper	Rs. 33 per kg	950 x 33	31350
85.81	GLS Lamps	1% of F O B Rs. 1 lac	100000 x 1%	1000
	Total D B K Eligible			58750

Problems on Baggage

Problem No.1

: An Indian resident visiting Germany brought following goods while returning to India (a) His personal effects like cloth etc. valued at Rs. 25,000 (b) Two Liter of liquor of Rs. 1,600 (c) New Camera of Rs. 39,800. What is the customs duty payable ?

Answer : (a) There is no duty on personal effects. (b) Liquor upto 2 liter of Rs. 1,600 can be accommodated in General Free Allowance. (c) The total GFA is Rs 25,000. Total dutiable goods imported are Rs 41,400 [Rs 1,600 + Rs 39,800]. After deducting GFA of Rs 25,000; passenger has to pay duty on Rs. 16,400 (41,400 - 25,000). (d) The duty payable is 35%, plus education cess of 2% and SAH education cess of 1% of duty. (e) Hence, duty payable is Rs 5,740, education cess of Rs 114.80 and SAH education cess of Rs 57.40.

Problem No 2

: An Indian resident goes to Nepal on tour. He purchases colour TV of Rs. 18,000, a laptop computer of Rs 79,000 and hair dryer of Rs. 2,000 in a duty free shop in Nepal and brings the same to India. What is the duty payable (a) If he returns on 3rd day by air (b) If he returns on 3rd day by land route (c) If he returns on 11th day by air (d) If he returns on 11th day by land route.

Answer : One laptop computer can be imported without payment of customs duty. Hence, the dutiable goods are Rs 20,000.

(a) If he returns within 3 days, there is no general free allowance for tourist coming from Nepal. Thus, duty @ 35% (plus education cesses) of Rs. 20,000. i.e. customs duty of Rs. 7,000 plus education cess of Rs 140 plus SAH education cess of Rs 70 is payable. (b) Same duty is payable if he returns on 3rd day by land route (c) If he returns after 3 days by air, GFA is Rs 6,000. Thus, customs duty is payable on Rs 14,000 @ 35% i.e. duty of Rs 4,900 plus education cess of Rs 98 and SAH education cess of Rs 49 is

payable (d) If he returns after 3 days by land route, there is no General Free Allowance. Hence duty payable is same as per (a) above.

Problem No.3

Mr. and Mrs. Khanna visited USA and bought a personal computer for Rs. 38,000 and a laptop computer of Rs 98,500 while returning to India, besides their personal effects valued at Rs. 86,000. What is the customs duty payable.

Answer : There is no customs duty on personal effects. One laptop computer can be brought without payment of customs duty. The General Free Allowance cannot be pooled i.e. husband and wife cannot have combined allowance of Rs. 50,000 in respect of one item, though individually, they are eligible for GFA of Rs 25,000 each. Thus, they are eligible for general free allowance of Rs. 25,000. Thus, they have to pay duty on Rs 13,000 (Rs 38,000 – Rs 25,000) @ 35% i.e. customs duty payable is Rs. 4,550 plus education cess of Rs 91 plus SAH education cess of Rs 45.50.

Problem No.4

- Mrs. & Mr. Kapoor visited Germany and brought following goods while returning to India on 8th February, 2008. (i) Their personal effects like clothes, etc., valued at Rs. 35,000. (ii) A personal computer bought for Rs. 36,000. (iii) A laptop computer bought for Rs. 95,000. (iv) Two litres of liquor bought for Rs. 1,600. (v) A new camera bought for Rs. 37,400. What is the amount of customs duty payable? (ICSI Final June 2005 adopted)

Personal effects and one laptop are exempt from customs duty. Two liters of liquor can be accommodated in General free Allowance. Hence, Mr. Kapoor can bring one personal computer and two litres of liquor on his account. Total value is Rs 37,600 (PC Rs 36,000 plus liquor Rs 1,600). He will get General Free Allowance of Rs 25,000 and duty payable will be on Rs 12,600. Customs Duty @ 35% of Rs 12,600 will be Rs 4,410 plus education cess of Rs 88.20 @ 2% of customs duty and SAH education cess of Rs 44.10 @ 1% of customs duty.

Mrs. Kapoor can bring one camera on her account. Total value is Rs 37,400. She will get General Free Allowance of Rs 25,000 and duty payable will be on Rs 17,400. Customs Duty @ 35% of Rs 17,400 will be Rs 6,090 plus education cess of Rs 121.80 @ 2% of customs duty and Rs 60.90 as SAH education cess.

Problem No 5

- Mr. and Mrs. Bapat visited Germany as tourist and bought a personal computer for Rs. 52,000 and a laptop computer of Rs. 78,000 while returning to India, besides their personal effects valued at Rs. 1,33,000. What is the customs duty payable, if duty on baggage is 35% plus education cesses as applicable (CA Final May 2007, ICWA Inter June 2006)

Answer – There is no customs duty on personal effects. One laptop computer can be brought without payment of customs duty. The General Free Allowance cannot be pooled i.e. husband and wife cannot have combined allowance of Rs. 50,000 in respect of one item, though individually, they are eligible for General Free Allowance of Rs 25,000 each. Thus, Mr. and Mrs. Bapat are eligible for general free allowance of Rs. 25,000. They have to pay duty on Rs 27,000 (Rs 52,000 – Rs 25,000) @ 35% i.e. customs duty payable is Rs. 9,450 plus education cess of Rs. 189 plus SAH education cess of Rs 94.50.

Problem No 6

Indirect taxes Problems and Solutions /May -June/ Nov- Dec 2011 Exam

Mr. A, a person holding Indian passport, brings 1 Kg Gold, out of which Rs. 3,60,000 are in form of biscuits and balance of Rs. 40,000 in form of gold jewellery which he was using abroad. (valued at international rates). What is the duty payable if (a) the person is returning after 3 months stay (b) the person is returning after 9 months stay abroad and the Gold belongs to him. (c) the person is returning after 8 months stay abroad and the Gold belongs to his friend, who has given it only for carrying to India. (d) He is returning after 18 months' stay abroad (ignore difference due to minor impurities in jewellery) [ICWA Inter June 2004].

Answer : (a) Personal jewellery is exempt if it was taken abroad. In this case, it is presumed that the jewellery is not personal jewellery. Hence, duty is payable @ 35% of Rs 4,00,000 is Rs. 1,40,000 plus education cess of Rs 2,8000 and SAH education cess of Rs 1,400. There is no 'General Free Allowance' in respect of Gold. (b) Duty is Rs. 750 per 10 Gms i.e. Rs. 75,000 plus education cess @ 2% and SAH education cess @ 1%, if paid in free convertible currency i.e. dollar, pound, yen, DM, franc etc. Otherwise duty will be as per 'a' above (c) Duty payable is same as 'b' above as ownership of Gold is not relevant (d) He will get free allowance of Rs. 10,000 of Gold jewellery if he is returning after one year (the free allowance is Rs. 20,000 for female). Thus, duty is payable on Gold of Rs. 3,90,000, i.e. 975 Gms @ Rs. 750 per 10 gms plus education cess @ 2% and SAH education cess of Rs. @ 1%, if paid in free foreign currency