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Step by step

Indirect Tax Law

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Certificate in International taxation

Relevant for –CA-IPCC Students

CLASSIFICATION OF GOODS

The excise duty is chargeable at different goods at different rates. For easy identification & determine the rate of duty, goods are put in to group or sub-group, such grouping is known as classification of goods Therefore, goods are classified for determination of duty.

Why Classification:-

(i) to determine applicable rate of duty on goods

(ii) to determine eligibility of exemption from duty if available to any particular heading or sub heading of the goods

SCHEME OF CLASSIFICATION

- Central Excise Tariff Act (CETA) is based on Harmonized **S**ystem of **N**omenclature (HSN)
- **HSN**:- It is coding system of the goods accepted internationally by most of the countries under **General Agreement on Tariff & trade (i.e. GATT)**
- Classification of the goods under this would be the same across the countries
- CETA and Customs Act both have sections and chapters.

Each section has various chapters.

➔ A section relate to a class of goods

for example :- Section – I is 'Animal Products', Section – XI is 'Textile Products', Section – XVII is 'Vehicles, Aircraft, Vessels and Other Transport Equipments'.

➔ A chapter contains goods of one class
For example:- Section – XI of Textile Products has Chapter 50 relating to Silk, Chapter 51 relating to Wool and Chapter 52 relating to Cotton.

There are 20 Sections in CETA and 21 Sections in Customs Act.
There are 96 chapters in CETA and 99 Chapters in Customs Act.

➔ Each Chapter is further divided into headings and headings are divided into sub-headings,
For example:- Chapter 50 of silk has 5 headings:

50.01 Silk and Cocoons
50.02 Raw Silk
50.03 Silk Waste
50.04 Silk Yarn

The heading 50.04 'Silk Yarn' has
(i) sub-headings 5004.11 Silk Yarns with 85% or more silk and
(ii) sub-heading 5004.19 relates to Silk Yarns with less than 85% silk.

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Eight Digit classification system:-

- Under CETA ,goods are classified by showing 8 digits
- Meaning of 8 digits is as follows:-

First Two Digit	Chapter number of the tariff
Next two digits	Heading Number of the goods in that Chapter
Next to next two digit	Sub heading number in the Heading of the goods in that Chapter
Last two digit	Sub-heading of sub heading of the Chapter

Example: Tariff Entry 3305 90 40 covers 'Hair dyes (natural, herbal or synthetic)'. The classification can be understood as-

33 refer to Chapter 33 'Cosmetic or toilet preparations, essential oil etc.'

05 refer to Heading 'Preparations for use on the hair'

90 refer to Sub-heading 'Other'

40 refer to the item 'Hair dyes (natural, herbal or synthetic)'

(Ref:- ICAI Material)

<u>Interpretative Rules for classification</u>

These are rules prescribed under CETA to provide guidelines for classification of the goods. There six rules under CETA for interpretation.

TRADE PARLANCE THEORY

Trade Parlance Theory emerged out of case of **Grenfell vs. IRC (1876),**
As per principle , a word in statute should be interpreted in its popular sense and not in its technical sense.
For examples:

- A mirror is not a glass wear, as glass loses its character after it is converted into mirror.
- Windscreen of motor vehicle (front glass of car) is not a glass it is understood as automobile part.
- Plastic pen has a separate identity. It cannot be classified as article of plastic like pipes, plastic sheets etc.
- Carbon paper is not a paper because paper is used for writing,