Unit 5
Customs Law

(1) What do you mean by custom duty?

Answer: Custom duty is a type of indirect tax imposed by the government on goods imported into or exported out of a country. The primary purpose of custom duty is to regulate the movement of goods across international borders, protect domestic industries, control illegal trade, and generate revenue for the government.

(2) Write the merits and demerits of Customs Duty.

Answer:

Merits of Customs Duty:

- **Revenue Generation:** Customs duty is a major source of income for the government, helping to fund public services and infrastructure.
- **Protection to Domestic Industries:** It protects local industries from foreign competition by making imported goods more expensive.
- **Control on Imports:** It helps control the inflow of non-essential or harmful goods into the country.
- **Regulation of Foreign Trade:** Customs duty is an effective tool to regulate and manage international trade.
- **Promotes Fair Competition:** By levying duties on foreign goods, domestic producers get a fair chance to compete in the market.
- **Corrects Balance of Payments:** Customs duties can help reduce trade deficits by discouraging excessive imports.

- **Encourages Local Production:** Higher customs duties on imported goods can encourage the production of substitutes within the country.
- **Supports Economic Policies:** It helps the government implement trade policies aligned with national interests.
- **Discourages Dumping:** Imposition of anti-dumping duties prevents foreign companies from selling goods at unfairly low prices.
- **Promotes Environmental Safety:** Duties on environmentally harmful goods can discourage their import and promote sustainable trade.

Demerits of Customs Duty:

- **Increase in Prices:** Customs duties raise the prices of imported goods, burdening consumers.
- **Limited Product Variety:** High duties may restrict the availability of foreign goods in the domestic market.
- **Encourages Smuggling:** Higher custom duties may promote illegal trade and smuggling activities.
- **Risk of Retaliation:** Other countries may impose tariffs in return, affecting exports.
- **Reduced Global Competitiveness:** Domestic industries may become less efficient due to reduced competition.
- **Inefficiency in Local Industries:** Protection from foreign competition may result in complacency among local producers.
- **Complex Procedures:** Customs regulations and paperwork can delay trade and increase administrative costs.
- **Impact on International Relations:** Excessive use of

customs duty can harm trade relations with other countries.

- **Dependency on Tax Revenue:** Heavy reliance on customs duty can be risky if trade volume decreases.
- **Hinders Free Trade:** Customs duty goes against the principle of liberalized and open international markets.

(3) What are the different types of Custom Duties?

Answer: Here are the **different types of Customs Duties:**

- **Basic Customs Duty (BCD):**

This is the standard duty imposed on the import of goods into a country. The rate varies based on the type and value of the goods.

- **Countervailing Duty (CVD):**

This duty is imposed to offset the subsidies given to producers or exporters in the exporting country, ensuring fair competition.

- **Anti-Dumping Duty:**

Levied on goods imported at a price lower than their normal value, to protect domestic industries from unfair competition.

- **Protective Duty:**

Imposed to safeguard the interests of domestic industries from foreign competition by making imported goods more expensive.

- **Safeguard Duty:**

Temporarily levied when there is a sudden surge in imports that can harm domestic industries.

- **Education Cess on Customs Duty:**

An additional duty charged to fund education and welfare programs in the country. (Now often merged with other duties in India)

- **Social Welfare Surcharge:**

Imposed on the value of customs duty to finance social welfare schemes. It has replaced the education cess in India.

- **Export Duty:**

A tax imposed on goods being exported from a country, usually to discourage export of essential commodities.

- **Integrated Goods and Services Tax (IGST) on Imports:**

IGST is charged on all imported goods in addition to the basic customs duty, to bring parity between imported and locally produced goods.

- **Additional Customs Duty:**

Sometimes charged to bring the taxation of imported goods at par with locally produced goods when excise duty is applicable to domestic products.

(4) Write a note on valuation of Customs Duty.

Answer: **Valuation of Customs Duty:**

The **valuation of customs duty** refers to the process of determining the **assessable value** of imported or exported goods on which customs duty is calculated. The correct valuation is crucial because the amount of duty payable depends directly on this value.

Under the **Customs Act, 1962** (India), customs duty on imported goods is typically calculated based on the **Transaction Value**, which is the price actually paid or payable for the goods when sold for export to India. This includes the cost of the goods, freight, insurance, loading, unloading, handling charges, and other expenses incurred up to the

place of importation.
If the transaction value cannot be determined, customs authorities use alternative methods like:

- **Transaction value of identical goods.**
- **Transaction value of similar goods.**
- **Deductive value method.**
- **Computed value method.**
- **Fallback method.**

Key Points:

- **Currency Conversion:** The value is converted into Indian Rupees using the exchange rate notified by the government.
- **Inclusions:** Packing charges, commission, royalty, and license fees related to the goods are added.
- **Exclusions:** Post-importation costs like inland freight and domestic taxes are excluded.

Accurate valuation ensures fair trade, proper duty collection, and prevents under-invoicing or over-invoicing in international trade.

(5) Write a detailed note on Baggage Rules and Exemptions.
Answer:
Baggage Rules are the guidelines set by customs authorities that govern the import and clearance of goods carried by international passengers. These rules ensure smooth movement of personal belongings across international borders while regulating the flow of goods to prevent smuggling, over-importation, and revenue loss to the government. In India, the **Customs Act, 1962** and the

Baggage Rules, 2016 provide the legal framework for the clearance of passenger baggage.
The baggage rules apply to Indian residents returning from abroad, foreign tourists, and foreign nationals coming to India. They determine which goods are allowed duty-free, which require the payment of customs duty, and which are prohibited or restricted.

Key Features of Baggage Rules

- **Duty-Free Allowance:**
- Passengers arriving from countries other than Nepal, Bhutan, or Myanmar are allowed to bring goods up to **₹50,000** duty-free.
- Passengers arriving from Nepal, Bhutan, or Myanmar by land routes are eligible for a duty-free allowance of **₹15,000**.
- This allowance is applicable per adult passenger. Minors (passengers below 10 years of age) are entitled to a lower allowance.
- **Jewelry Exemption:**
- Female passengers can bring gold jewelry up to **20 grams** (valued up to ₹50,000) duty-free.
- Male passengers can bring gold jewelry up to **20 grams** (valued up to ₹20,000) duty-free.
- Jewelry exceeding this limit attracts customs duty at the applicable rates.
- **Personal Effects:**
- Used personal items such as clothing, footwear, toiletries, and one laptop are exempt from duty.
- Household articles acquired during a passenger's stay

abroad may also qualify for duty exemption based on their duration of stay.

- **Unaccompanied Baggage:**
- Passengers may send their baggage separately, either before or after their arrival. Such baggage is treated under baggage rules but may require customs documentation and is subject to the applicable allowances.
- **Special Allowances:**
- Passengers who have stayed abroad for over one year are allowed higher duty-free limits on household goods when shifting residence.
- Items purchased at duty-free shops within the terminal can also be carried without additional duty, subject to a maximum value of ₹50,000.
- **Prohibited and Restricted Goods:**
- Items such as firearms, narcotics, counterfeit goods, obscene materials, and certain agricultural products are strictly prohibited.
- Restricted items, like high-value electronics or large quantities of liquor, may require prior permission or payment of customs duty.
- **Declaration Requirements:**
- Passengers carrying goods beyond the permissible limit, high-value items, or foreign currency exceeding **USD 5,000 in cash** or **USD 10,000 in total** (cash plus traveler's cheques) must declare them by filling out a **Customs Declaration Form**.
- If goods exceed the duty-free limit, customs duty is levied as per the current rate.

- **Green and Red Channels:**
- Green Channel: For passengers who have nothing to declare.
- Red Channel: For passengers carrying dutiable or prohibited items.

Exemptions under Baggage Rules

- **Personal Use Items:** Clothes, books, camera, laptop, and used personal effects are typically exempt from duty.
- **Duty-Free Purchases:** Goods purchased at duty-free shops within specified limits are also exempt.
- **Transfer of Residence:** Higher exemptions are provided for passengers who are transferring their residence to India after a long stay abroad.

Conclusion

The baggage rules and exemptions are designed to provide convenience to international travelers while ensuring that customs laws are respected. These rules aim to balance the interests of travelers, protect domestic markets, and safeguard national security. Passengers are expected to comply with these regulations to avoid penalties, seizure of goods, or legal consequences. Proper knowledge of the baggage rules helps travelers plan their trips efficiently and ensures a hassle-free customs clearance experience.

(6) Write a note on custom duty authorities.

Answer: **Custom Duty Authorities:**

Custom Duty Authorities are the government officials and departments responsible for implementing, regulating, and collecting customs duties on goods imported into or exported out of a country. In India, the primary authority dealing with customs duties is the **Central Board of Indirect Taxes and Customs (CBIC)**, which functions under the **Ministry of Finance, Government of India**.

Key Roles of Customs Authorities:

- **Assessment and Collection of Duties:**

Customs authorities assess the value of imported and exported goods and ensure proper collection of applicable customs duties.

- **Prevention of Smuggling:**

They are responsible for preventing the illegal import and export of prohibited and restricted goods.

- **Regulation of Import and Export:**

Customs authorities ensure that imports and exports comply with national laws, international agreements, and trade policies.

- **Inspection and Clearance:**

They conduct physical inspections and clearances of goods at ports, airports, land borders, and customs stations.

- **Enforcement of Baggage Rules:**

Customs officers regulate the personal baggage of international travelers and ensure that duty-free allowances and exemptions are properly followed.

- **Issuance of Licenses and Permits:**

They issue required permits, clearances, and authorizations for restricted goods.

- **Investigation and Adjudication:**

Customs authorities investigate cases of customs law violations and impose penalties when necessary.

- **Facilitation of Legitimate Trade:**

They ensure smooth processing of goods to encourage lawful and efficient international trade.

Important Customs Authorities in India:

- **Central Board of Indirect Taxes and Customs (CBIC)**
- **Chief Commissioner of Customs**
- **Commissioner of Customs**
- **Additional/Joint/Deputy/Assistant Commissioners of Customs**
- **Customs Officers at ports, airports, and land borders**

These authorities play a crucial role in revenue generation, border security, and trade regulation.

(7) Write a note on Offences and Penalties of Cuty Duty Authorities.

Answer:

Under the **Customs Act, 1962**, customs duty authorities are empowered to identify and penalize offences related to the improper import, export, or handling of goods. These offences are treated seriously as they can harm national revenue, trade policies, and border security. The penalties imposed by customs authorities aim to discourage illegal activities and ensure lawful trade practices.

Major Offences:

- **Smuggling of Goods:**

Import or export of goods without paying customs duty or in violation of customs laws.

- **Mis-declaration:**

Providing false information regarding the description, quantity, or value of goods to evade customs duty.

- **Under-Invoicing and Over-Invoicing:**

Declaring incorrect prices to avoid duty or to illegally transfer money across borders.

- **Import of Prohibited Goods:**

Bringing into the country items that are completely banned such as narcotics, counterfeit currency, or hazardous materials.

- **Violation of Baggage Rules:**

Carrying goods exceeding the duty-free allowance without declaration.

- **Non-declaration of Currency:**

Failing to declare foreign currency or Indian currency exceeding the prescribed limits.

- **Unauthorized Transfer of Goods:**

Moving goods from bonded warehouses or customs-controlled areas without permission.

Penalties:

- **Monetary Penalties:**

Heavy fines may be imposed for non-compliance, undervaluation, and other customs-related offences.

- **Confiscation of Goods:**

Goods involved in the offence may be seized and forfeited by customs authorities.

- **Imprisonment:**

Serious offences like smuggling can result in imprisonment up to seven years along with fines.

- **Seizure of Conveyance:**

Vehicles, vessels, or aircrafts used for smuggling can be