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UNIT 2

CUSTOMS DUTY

CUSTOMS DUTY MEANING:

Customs duty is a tax imposed by a government on the import or export of goods. It is a source of revenue for the government and is designed to regulate trade by controlling the flow of certain goods in and out of a country. Customs duties can take various forms, including ad valorem (a percentage of the value of the goods), specific (a fixed amount per unit of quantity), or a combination of both.

Key points about customs duty include:

1. **Import Duty:** Customs duty on goods that are brought into a country. It is imposed at the time of importation and is typically based on the customs value of the goods, which includes the cost of the goods, shipping, and insurance.
2. **Export Duty:** Customs duty on goods that are exported from a country. Export duties are less common than import duties and are often used to regulate the export of specific goods.
3. **Tariffs:** Tariffs are a type of customs duty that is applied to goods being traded internationally. They can be specific (a fixed amount per unit) or ad valorem (a percentage of the value).
4. **Revenue Generation:** Customs duties serve as a source of revenue for governments. The funds collected through customs duties contribute to national budgets and can be used for various public services.
5. **Trade Regulation:** Customs duties can be used to protect domestic industries by making imported goods more expensive, thus encouraging consumers to buy domestic products. This is often done through the imposition of tariffs.
6. **Free Trade Agreements:** Some countries enter into free trade agreements, which reduce or eliminate customs duties on goods traded between them. These agreements aim to promote economic cooperation and trade between the participating nations.
7. **Customs Valuation:** Determining the customs value of goods is crucial in calculating the applicable customs duty. Customs authorities use various methods, and the valuation is often based on the transaction value (the price actually paid or payable for the goods).
8. **Customs Classification:** Goods are categorized into specific customs codes, known as Harmonized System (HS) codes. These codes help in the uniform classification of goods for customs purposes, facilitating the application of appropriate duties.

It's important for businesses engaged in international trade and individuals importing or exporting goods to be aware of the customs duties applicable in the countries involved. The rates and regulations can vary widely, and non-compliance may lead to penalties or delays in the movement of goods.

TYPES OF CUSTOMS DUTY :

Customs duties can be categorized into several types based on various factors such as the nature of the goods, the purpose of the duty, and the method of calculation. Here are some common types of customs duties:

1. **Ad Valorem Duty:** This type of duty is calculated as a percentage of the customs value of the imported or exported goods. The customs value is typically determined based on the transaction value (the price actually paid or payable for the goods).
2. **Specific Duty:** Specific duties are fixed amounts of money levied on a quantity or unit of the goods being imported or exported. Unlike ad valorem duties, specific duties do not vary with the value of the goods.
3. **Combined Duty:** Combined duties are a combination of ad valorem and specific duties. In this case, the customs duty is calculated as a percentage of the value of the goods plus a fixed amount per unit.
4. **Protective Duty:** Protective duties are imposed to protect domestic industries from foreign competition. Governments may apply higher customs duties on certain imported goods to make them less competitive in the domestic market.
5. **Countervailing Duty (CVD):** Countervailing duties are imposed to counter the negative effects of subsidies provided by foreign governments to their domestic industries. If a country subsidizes its exports, another country may impose countervailing duties to neutralize the impact on its own industries.
6. **Anti-Dumping Duty:** Anti-dumping duties are imposed to counteract the effects of dumping, which occurs when a country exports goods at a price lower than their normal value in the exporting country. The aim is to protect domestic industries from unfair competition.
7. **Revenue Duty:** Revenue duties are imposed with the primary purpose of generating revenue for the government. These duties may be ad valorem, specific, or a combination of both.
8. **Export Duty:** Export duties are imposed on goods leaving a country. These duties may be imposed for various reasons, such as controlling the export of specific goods, raising revenue, or influencing trade balances.
9. **Import Duty:** Import duties are imposed on goods entering a country. These duties are a common source of revenue for governments and are often used to protect domestic industries.
10. **Transit Duty:** Transit duties are applied to goods passing through a country en route to another destination. The purpose is to collect revenue for the use of the country's infrastructure and services during transit.

ABATEMENT DUTY IN DAMAGED OR DETERIORATED GOODS :

An abatement duty is a type of customs duty reduction or exemption granted in specific situations, such as when goods are damaged or deteriorated during transit. The purpose of abatement is to provide relief to importers or exporters who face unforeseen circumstances that result in the degradation of the goods' condition. The idea is to adjust the customs duty to reflect the reduced value of the damaged or deteriorated goods.

Here are key points related to abatement duty in the context of damaged or deteriorated goods:

1. **Purpose of Abatement:** Abatement is designed to address situations where the condition of the goods has significantly deteriorated due to factors beyond the control of the importer or exporter. This could include damage during shipping, exposure to adverse weather conditions, or other unforeseen events.
2. **Customs Valuation Adjustment:** The customs value of goods is a crucial factor in determining the amount of customs duty payable. When goods are damaged or deteriorated, the customs value is affected. Abatement allows for an adjustment to the customs value to reflect the reduced value of the goods.
3. **Documentation Requirements:** Importers or exporters seeking abatement typically need to provide documentation that proves the damage or deterioration of the goods. This may include photographs, inspection reports, or other evidence that demonstrates the condition of the goods upon arrival.
4. **Notification and Application Process:** The process for seeking abatement usually involves notifying the customs authorities of the damaged or deteriorated goods and submitting a formal application for an adjustment in the customs duty. The specific procedures may vary by country.
5. **Time Limitations:** There may be time limitations on when an importer can apply for abatement. Importers are generally required to report the damage or deterioration promptly to the customs authorities to be eligible for the adjustment.
6. **Partial Abatement:** In some cases, customs authorities may grant a partial abatement, reducing the customs duty proportionally based on the extent of the damage or deterioration.
7. **Verification by Customs Authorities:** Customs authorities may conduct their own verification to assess the extent of the damage or deterioration. This may involve inspections or consultations with relevant experts.

CUSTOMS DUTY DRAWBACK :

Customs duty drawback, often referred to simply as "duty drawback," is a program in many countries that allows businesses to recover certain duties, taxes, and fees paid on imported goods when those goods are subsequently exported. The purpose of duty drawback is to promote and support exports, providing an incentive for businesses to engage in international trade.

Here are key points about customs duty drawback:

1. **Definition:**
   - Duty drawback is a refund of customs duties, taxes, and fees that were paid when importing goods. This refund is provided when the imported goods are exported.
2. **Objective:**
   - The primary goal of duty drawback programs is to encourage and support exports. By offering the possibility of recovering duties paid on imported raw materials or components used in the manufacturing process, the program helps reduce the cost of production for exporters.
3. **Types of Duty Drawback:**
   - There are different types of duty drawback programs, including:
     - **Unused Merchandise Drawback:** When imported goods are exported without being used in the country of import.
     - **Manufacturing Drawback:** When imported goods are used in the manufacture of a product that is then exported.
     - **Direct Identification Drawback:** Identifying and tracking specific imported goods through the production process and exporting the resulting product.
     - **Substitution Drawback:** Using domestically produced goods in place of imported goods in manufacturing.
4. **Claiming Process:**
   - Businesses usually need to file a claim with the customs authorities to receive duty drawback. The claim includes documentation proving the export of the goods and the original payment of duties.
5. **Requirements and Conditions:**
   - Duty drawback programs typically have specific requirements and conditions. These may include time limits for filing claims, documentation standards, and rules about the condition of the goods at the time of export.
6. **Global Variances:**
   - Duty drawback programs vary from country to country. The rules, rates, and eligibility criteria differ based on the regulations of each individual country.
7. **Impact on Businesses:**
   - For businesses engaged in international trade, duty drawback can significantly affect their competitiveness and profitability. It encourages the utilization of imported goods in the production process, making it more attractive for companies to source inputs globally.
8. **Trade Agreements and Free Trade Zones:**
   - Duty drawback provisions can also be influenced by trade agreements and the presence of free trade zones. Some regions or countries may have special arrangements that impact the duty drawback benefits.

CUSTOMS DUTY –OBJECTIVES :

Customs duties, also known as import or export tariffs, serve various objectives and play a crucial role in the economic and trade policies of a country. The primary objectives of customs duty include:

1. **Revenue Generation:**
   - One of the primary objectives of customs duties is to generate revenue for the government. By imposing taxes on imported goods, governments can collect funds that contribute to public expenditures, infrastructure development, and the provision of essential services.
2. **Protection of Domestic Industries:**
   - Customs duties can be used as a tool to protect domestic industries from foreign competition. By imposing tariffs on certain imported goods, governments aim to make locally produced goods more competitive in the domestic market.
3. **Trade Regulation:**
   - Customs duties are employed to regulate the flow of goods in and out of a country. They can be adjusted to manage trade imbalances, encourage or discourage the importation of specific goods, and ensure a fair and level playing field for domestic producers.
4. **Balancing Payments:**
   - Customs duties can contribute to the balance of payments by controlling the outflow of foreign currency. By imposing tariffs on certain imports, a country can reduce its trade deficit and protect its foreign exchange reserves.
5. **National Security:**
   - In some cases, customs duties are implemented to address national security concerns. Certain goods, technologies, or materials might be subject to tariffs or trade restrictions due to their potential impact on a country's security interests.
6. **Encouraging Local Production:**
   - Governments may use customs duties to encourage the development of local industries. By making imported goods more expensive, authorities hope to stimulate the growth of domestic production and manufacturing.
7. **Reduction of Dumping:**
   - Anti-dumping duties are a specific type of customs duty designed to counteract the practice of "dumping," where foreign manufacturers sell their goods in another country at prices lower than their normal value, potentially harming domestic industries.
8. **Environmental Objectives:**
   - Customs duties can be used to promote environmental goals by imposing taxes on goods that have negative environmental impacts. This can encourage the importation of environmentally friendly products.
9. **Consumer Protection:**
   - Customs duties can be adjusted to protect consumers by ensuring that imported goods meet certain quality and safety standards. This may involve imposing tariffs on goods that do not comply with specified regulations.
10. **Negotiation Tool in Trade Agreements:**
    - Customs duties are often a key point of negotiation in international trade agreements. Countries may agree to reduce or eliminate tariffs on certain goods as part of trade deals, promoting economic cooperation and market access.

CUSTOMS DUTY LEVY AND COLLECTION :

Customs duty levy and collection involve the imposition and collection of taxes on goods that are imported or exported. These processes are typically governed by customs laws and regulations in each country. Here's an overview of how customs duty levy and collection work:

1. **Determination of Customs Duty:**
   - Customs duties are imposed on goods entering (import) or leaving (export) a country. The determination of the customs duty is based on various factors, including the type and classification of the goods, their value, and the applicable tariff rates.
2. **Customs Valuation:**
   - Customs authorities use a standardized method for valuing imported goods, often based on the transaction value (the price actually paid or payable for the goods), adjusted for certain elements like transportation and insurance costs.
3. **Harmonized System (HS) Classification:**
   - Goods are classified under the Harmonized System (HS), an international nomenclature for the classification of products. Each product is assigned a specific code, and customs duties are applied based on these codes.
4. **Duty Calculation:**
   - Customs duties can be ad valorem (a percentage of the value of the goods), specific (a fixed amount per unit), or a combination of both. The applicable rates are determined by the customs tariff in force at the time of import or export.
5. **Exemptions and Concessions:**
   - Some goods may be eligible for exemptions or concessional rates based on factors such as the nature of the goods, trade agreements, or specific government policies. Customs authorities may provide duty relief for certain industries or circumstances.
6. **Levy of Customs Duty:**
   - The levy of customs duty involves the formal imposition of the duty on the imported or exported goods. This is a legal process by which the government asserts its right to collect the specified customs duties.
7. **Customs Clearance Process:**
   - Customs duties are typically collected during the customs clearance process. Importers or exporters are required to declare the goods, and customs authorities assess the applicable duties based on the provided information.
8. **Payment of Customs Duty:**
   - Importers or exporters are responsible for paying the customs duties before the release of the goods. Payment methods may include cash, electronic funds transfer, or other approved payment mechanisms.
9. **Customs Declarations and Documentation:**
   - To facilitate the levy and collection of customs duties, importers and exporters are required to submit accurate and complete customs declarations. Documentation, including invoices, packing lists, and certificates of origin, may be necessary to determine the correct duty liability.
10. **Penalties for Non-Compliance:**
    - Customs authorities enforce compliance with customs laws. Non-compliance, such as undervaluation of goods or misclassification, may result in penalties or fines.
11. **Recordkeeping and Audits:**
    - Customs authorities often require businesses to maintain records of their import and export activities. Audits may be conducted to verify the accuracy of customs declarations and duty payments.

CUSTOMS DUTY CLASSIFICATION OF GOODS :

The classification of goods for customs duty purposes involves assigning a specific code to each product based on an internationally recognized system. This system is known as the Harmonized System (HS), and it is used by most countries worldwide. The HS is a standardized coding system that facilitates the uniform classification of traded products. Here's how the process of customs duty classification of goods typically works:

1. **Harmonized System (HS):**
   - The Harmonized System is an internationally agreed-upon classification system for goods. It was developed by the World Customs Organization (WCO) to provide a standardized framework for the classification of products in international trade.
2. **HS Codes:**
   - Each product is assigned a unique code under the HS, known as an HS code or tariff code. HS codes are typically numerical and can have several digits, providing a level of specificity about the type of product.
3. **Classification Criteria:**
   - The classification of goods is based on specific criteria, including the nature and characteristics of the product. The HS system uses a hierarchical structure, with the first few digits representing broader categories and the additional digits providing more detailed classification.
4. **Customs Tariff:**
   - Countries adopt the HS as the basis for their national customs tariffs. National customs authorities may add additional digits to the HS code to create a more detailed classification that aligns with their specific needs.
5. **Customs Declarations:**
   - When goods are imported or exported, businesses are required to declare the HS code on customs documentation. The correct classification is crucial because it determines the applicable customs duties, taxes, and regulations.
6. **Customs Authorities' Role:**
   - Customs authorities play a key role in verifying the accuracy of the declared HS code. They may review supporting documentation, such as invoices, product descriptions, and certificates of origin, to ensure proper classification.
7. **Risk of Misclassification:**
   - Misclassification of goods can have significant consequences. It may result in the payment of incorrect customs duties, fines, or delays in the clearance of goods. Therefore, businesses must take care to accurately classify their products.
8. **Rulings and Appeals:**
   - Customs authorities may issue classification rulings to provide clarity on the proper classification of specific products. Businesses can seek such rulings or appeal decisions if they believe there is a discrepancy in the classification assigned by customs authorities.
9. **Special Customs Procedures:**
   - Some countries may have special customs procedures or programs that provide preferential treatment for certain types of goods. For example, goods classified under specific HS codes may be eligible for duty exemptions or reduced rates under free trade agreements.
10. **Updates and Changes:**
    - The HS is periodically updated to reflect changes in technology, industry practices, and global trade. Countries typically adopt the latest version of the HS to ensure consistency in classification.

VALUATION OF GOODS

The valuation of goods is a crucial aspect of international trade and customs procedures. Customs valuation involves determining the customs value of imported goods, which serves as the basis for calculating customs duties and taxes. The valuation process helps ensure fair and uniform treatment of goods in accordance with international trade standards. Here are key points regarding the valuation of goods:

1. **Customs Value:**
    - The customs value is the value used as the basis for assessing customs duties and taxes on imported goods. It is typically expressed in the currency of the country where the customs declaration is made.
2. **Transaction Value:**
    - The primary method for determining customs value is the transaction value. This is the price actually paid or payable for the goods when sold for export to the country of importation. It includes all payments made as a condition of the sale, with certain adjustments.
3. **Adjustments to Transaction Value:**
    - While the transaction value is the preferred method, adjustments may be necessary to ensure that certain elements are included or excluded. Adjustments may be made for items such as transportation and insurance costs, commissions, and certain royalties and license fees.
4. **Related Party Transactions:**
    - When the buyer and seller are related parties, customs authorities may scrutinize the transaction value to ensure that it reflects an arm's length price. If the transaction value is influenced by the relationship, alternative valuation methods may be applied.
5. **Transaction Value of Identical or Similar Goods:**
    - If the transaction value cannot be determined or is deemed unacceptable, customs authorities may use the transaction value of identical or similar goods as a basis for valuation.
6. **Deductive Value:**
    - Deductive value involves deducting certain costs incurred after the goods arrive at the port of importation from the selling price in the country of importation.
7. **Computed Value:**
    - Computed value is based on the cost of production, general expenses, profit, and other costs incurred in the country of origin, with certain adjustments.
8. **Fallback Method:**
    - If none of the above methods are applicable, customs authorities may use a reasonable means to determine the customs value. This may involve considering the value of identical or similar goods, or other commercially accepted methods.
9. **Currency Conversion:**
    - If the transaction value is expressed in a currency other than the currency of the importing country, a proper method of currency conversion is used to determine the customs value.
10. **Documentation:**
    - Importers are required to provide accurate and complete documentation supporting the declared customs value. This includes invoices, contracts, bills of lading, and other relevant documents.
11. **Post-Clearance Audit:**
    - Customs authorities may conduct post-clearance audits to verify the accuracy of the declared customs value. Non-compliance with valuation rules may result in penalties.