

CHAPTER I

Customs Revenue

1.1 Nature of Customs Duties

1.1.1 Customs duty is levied on import of goods into India and on export of certain goods out of India (Entry 83 of List 1 of the Seventh Schedule of the Constitution). Customs receipts form part of the indirect tax revenue of the government.

1.1.2 Duties of customs are levied under the Customs Act 1962, and the rates of duties are governed under the Customs Tariff Act and notifications issued from time to time.

1.2 Customs revenue base

1.2.1 The Customs revenue base comprises of the Importers and Exporters issued with IEC by the DGFT. As on March 2017 there are 2,65,285 active IECs³. During 2017-18, ₹19.57 lakh crore of exports (74,67,821 transactions) and ₹30.01 lakh crore worth of imports (46,04,315 transactions) took place.

1.3 Organisation and Functions of Administrative Departments

1.3.1 The Department of Revenue (DoR) under Ministry of Finance is the apex department of Government of India responsible for administration of the Direct and Indirect Union Taxes, through two statutory Boards namely, the Central Board of Indirect Taxes and Customs (CBIC) and the Central Board of Direct Taxes (CBDT) constituted under the Central Board of Revenue Act, 1963.

1.3.2 The levy and collection of customs duty and cross-border preventive functions are administered by the CBIC through 23 Zones headed by Principal Commissioner/Commissioners across the country.

1.3.3 The Department of Commerce (DoC) under Ministry of Commerce and Industry (MOCI), through Director General of Foreign Trade (DGFT) formulates, implements and monitors the Foreign Trade Policy (FTP) which provides the basic framework of policy and strategy to be followed for promoting exports and trade. Besides, the Department is also entrusted with responsibilities relating to multilateral and bilateral commercial relations, Special Economic Zones (SEZ), state trading, export promotion and trade facilitation, and development and regulation of certain export oriented Industries and commodities.

³ IEC is issued by DGFT, Delhi to every importer/Exporter.

1.3.4 The FTP is implemented through the Regional Licensing Authorities (RLAs) who are responsible for providing IECs and granting licenses under various schemes of export promotion. During 2017-18 there were 38 RLAs across India.

1.4 Customs Receipts

1.4.1 Customs receipts before the introduction of Goods and Services Tax (GST) comprised of the basic customs duty (BCD), countervailing duty (CVD) and special additional duties of customs (SAD). The other levies on imports included education cess and anti-dumping duty and safeguard duty wherever the latter two were applicable.

1.4.2 After introduction of GST w.e.f. 1 July 2017, the CVD and SAD on import of all commodities, except petroleum products and alcohol, have been subsumed and replaced by integrated GST (IGST) tax. The integrated tax is in addition to the applicable BCD which is levied as per the Customs Tariff Act. In addition, GST compensation cess is also leviable on certain luxury and demerit goods under the GST (Compensation to States) Cess Act, 2017. Levy of education cess as well as anti-dumping duty and safeguard duty remains unchanged.

1.5 Budget Estimates and Actual Receipts

1.5.1 The Revenue Budget of the Union Government provides budget estimates of tax and non-tax revenues of the Government. Comparison of budget estimates with actual receipts is an indicator of quality of fiscal management. The actuals may differ from the estimates either due to unexpected events or due to unrealistic assumptions.

1.5.2 Budget estimates (BE), revised estimates (RE) and actual customs receipts during FY 2013-14 to FY 2017-18 are given in Table 1.1 below:

Table 1.1: Budget and Revised estimates, Actual receipts

Cr. ₹						
Year	Budget estimates	Revised estimates	Actual receipts	Diff. between actual and BE	Percent variation between actual and BE	Percent variation between actual and RE
FY 14	1,87,308	1,75,056	1,72,085	(-)15,223	(-)8.13	(-)1.73
FY 15	2,01,819	1,88,713	1,88,016	(-)13,803	(-)6.84	(-)0.37
FY 16	2,08,336	2,09,500	2,10,338	(+)2,002	(+)0.96	(+)0.40
FY 17	2,30,000	2,17,000	2,25,370	(-)4,630	(-)2.01	(+)3.85
FY 18	2,45,000	1,35,242	1,29,030	(-) 1,15,970	(-)47.33	(-) 4.59

Source: Union Budget and Finance Accounts for respective years.

1.5.3 The variation between RE and actual receipts ranged between (-)1.73 per cent to 3.85 per cent during FY 2013-14 to FY 2016-17. Variation between BE and Actuals was higher during the same period.

1.5.4 Budget Estimates during FY 2017-18 was pegged at ₹ 2,45,000 crore. After the implementation of GST, the revised estimate for Customs receipts during 2017-18 was fixed at ₹ 1,35,242 crore. The revenue realised was ₹ 1,29,030 crore. One of the reasons for decrease in the customs receipts during FY 2017-18 may be attributed to the fact that in GST regime CVD and SAD have been subsumed in IGST. Hence, customs receipts mainly comprise of BCD.

1.6 Growth of Customs Receipts

1.6.1 Table 1.2 below gives the relative growth of Customs Receipts with reference to Gross Domestic Product (GDP), Gross Tax Revenue Receipts (GTR) and Gross Indirect Tax Receipts

Table 1.2: Growth of Customs Receipts

Cr. ₹

Year	Customs receipts	Year on year growth percent	GDP	Customs receipts as % of GDP	Gross Tax Revenue	Customs receipts as % of Gross tax	Gross Indirect taxes	Customs receipts as % of Indirect taxes
FY 14	1,72,085	4	1,13,45,056	1.52	11,38,996	15.10	4,97,349	34.60
FY 15	1,88,016	9	1,25,41,208	1.50	12,45,135	15.10	5,46,214	34.42
FY 16	2,10,338	12	1,35,76,086	1.55	14,55,891	14.45	7,10,101	29.62
FY 17	2,25,370	7	1,51,83,709	1.48	17,15,968	13.13	8,62,151	26.14
FY 18	1,29,030	(-43)	1,67,73,145	0.76	19,19,183	6.72	9,16,445	14.07

1.6.2 Customs receipts growth rate, on year on year basis, increased in the first three years from FY 2013-14 to FY 2015-16, but slowed down in 2017-18 to 7 per cent compared to 12 per cent in the previous year. **Customs receipts in FY 2017-18 are not comparable with earlier years as these comprise of only Basic Customs Duty w.e.f. 1 July 2017 compared to earlier years when CVD and SAD were part of customs receipts.**

1.6.3 During FY 2013-14 to FY 2016-17, the percentage of customs receipts to GDP remained stable between 1.52 to 1.48 per cent. Customs receipts as percentage of GTR was 13 per cent in FY 2016-17 compared to 15 per cent in FY 2013-14. Customs receipts as percentage of total indirect taxes has steadily declined from 35 per cent in FY 2013-14 to 26 per cent in FY 2017-18.

1.6.4 During FY 2017-18, the customs receipts to GDP ratio was less than one per cent (0.76 per cent) while customs receipts as percentage of gross tax

receipts was 6.7 per cent. Customs receipts as a percentage of indirect taxes was 14 per cent.

1.7 India's imports and exports

1.7.1 Table 1.3 depicts trend of growth of India's imports and exports during FY 2013-14 to FY 2017-18.

Table 1.3: India's Import and Export

Year	Imports Cr.₹	% growth over previous year	Exports Cr.₹	% growth over previous year	Trade Imbalance Cr.₹
FY 14	27,15,434	-	19,05,011	-	-8,10,423
FY 15	27,37,087	0.79	18,96,348	(-) 0.45	-8,40,739
FY16	24,90,298	(-) 9.00	17,16,378	(-) 9.49	-7,73,920
FY17	25,77,422	3.49	18,52,340	7.92	-7,25,082
FY 18	30,01,033	16.44	19,56,515	5.62	-10,44,518

Source: EXIM Data, Ministry of Commerce & Industry

1.7.2 Year on year growth rate of imports picked up during FY 2016-17 and FY 2017-18 after undergoing a negative growth of (-)9 per cent during FY 2015-16. The growth in exports also picked up from (-) 9.5 per cent in FY 2015-16 to 8 per cent in FY 2016-17. The imports grew by 16.44 per cent in 2017-18 over 2016-17 while exports grew by 5.62 per cent during the same period.

1.7.3 India's imports were valued at ₹ 30.01 lakh crore during FY 2017-18 from ₹ 25.77 lakh crore in FY 2016-17, while the exports were ₹ 19.56 lakh crore in FY 2017-18 from ₹ 18.52 lakh crore in FY 2016-17.

1.8 Top imports and exports during FY 2017-18

1.8.1 Growth of imports in FY 2017-18 was led by five major commodity groups, namely, (i) Mineral fuels, mineral oils and products of their distillation (Chapter 27 of Customs Tariff) (ii) Natural or cultured pearls, precious or semi-precious stones (Chapter 71 of Customs Tariff) (iii) Electrical machinery and equipment and parts thereof, Sound recorders and reproducers, Television image and sound recorders and parts (Chapter 85 of Customs Tariff) (iv) Nuclear reactors, Boilers, Machinery and mechanical appliances, parts thereof (Chapter 84 of Customs Tariff) and (v) Organic chemicals (Chapter 29 of Customs Tariff). These commodities account for 67 percent share of the total imports made during FY 18.

1.8.2 Top five commodities exported during FY 18 were (i) Natural or cultured pearls and precious stones, precious metal and articles thereof (Chapter 71 of Customs tariff) (ii) Mineral fuels and mineral oils (Chapter 27 of Customs tariff) (iii) Machinery and mechanical appliances, parts thereof (Chapter 84 of Customs tariff) (iv) Vehicles other than railway and parts and accessories

thereof. (Chapter 87 of Customs tariff) and (v) Organic chemicals (Chapter 29 of Customs tariff) in their respective order.

The share of the five major commodities exported during FY 18 was 43 percent of the total exports made.

1.9 Cost of Collection of Customs Receipts during FY 2013-14 to FY 2017- 18

1.9.1 Cost of collection is the cost incurred on collection of Customs duties and comprises of expenditure on Import/Export Trade control functions, preventive functions, transfers to reserve fund/deposit account and other expenditure.

1.9.2 CBIC reported that the cost of collection of Customs receipts for 2017-18 was 3.05 percent of Customs receipts. The cost of collection of Customs receipts for the period from 2014-15 to 2017-18 is given below (Table 1.4).

Table 1.4: Cost of Collection during FY 14 to FY 18

Cr.₹

Year	Expenditure on Revenue-cum Import / export and trade control functions	Expenditure on preventive and other functions	Transfer to Res. Fund, Deposit A/c and other expenditure.	Total	Customs receipts	Cost of collection as percentage of Customs receipts
FY 14	333	1,804	5	2,142	1,72,085	1.25
FY 15	382	2,094	20	2,496	1,88,016	1.33
FY 16	412	2,351	36	2,799	2,10,338	1.33
FY 17	544	2,771	7	3,322	2,25,370	1.47
FY18	640	3262	39	3,941	1,29,030	3.05

Source: Finance Accounts of the Union Government for respective years

1.9.3 Expressed in terms of percentage of Customs receipts, cost of collection ranged between 1.25 percent (FY 14) to 3.05 percent (FY18).

1.10 Arrears of Custom duties

1.10.1 Recovery of arrears is the overall responsibility of the jurisdictional commissioners. They are required to review and monitor the functions of recovery cell functioning within the Commissionerates. As per Ministry of Finance circular dated 15.12.1997, a “Recovery Cell (RC)” should be created in each Custom Commissionerate for the purpose of making recovery of Government Dues. Every year recovery targets are fixed for each Commissionerate by Chief Commissioner CC (TAR). Since August 2015, function and responsibility and responsibilities of CC (TAR) have been transferred to Directorate General of Performance Management (DGPM).

1.10.2 The arrears of customs duty are duties which have been raised by the department but have not been recovered due to various reasons like

adjudication, disputed claims, short levies, provisional assessments etc. amounted to ₹ 24,685 crore as on 31st March 2018.

1.10.3 The Customs revenue arrears for 2014-15 to 2017-18 are depicted in the table 1.5 below:

Table 1.5: Arrears of Custom duties

Year	Arrear of customs duties under dispute (Cr.₹)	Arrear of undisputed customs duties (Cr.₹)	Total Cr.₹	Percentage of disputed arrears to total arrears
2014-15	14597	6210	20807	70.15
2015-16	12300	12322	24622	49.95
2016-17	21780	4700	26480	82.25
2017-18	18836	5849	24685	76.31

Source: DG Performance management (TAR), Customs, Central Excise & Services

1.10.4 The arrears of customs duties have risen steadily during FY 2014-15 to FY 2016-17. However, during financial year 2017-18, the arrears came down by approximately ₹2000 crore. The overall arrears in customs duties have grown by 18.63 per cent in FY 2017-18 compared to FY 2014-15.

1.10.5 Amount of arrears under dispute as a proportion to total arrears rose from 49.95 per cent in FY 2015-16 to 82.25 per cent for the in FY 2016-17 and came down to 76 per cent in FY 2017-18, and stood at ₹ 1,88,386 crore. There was 5.81 per cent decrease in arrears under undisputed category in 2017-18 from 2014-15.

1.10.6 Out of total 23 Zones (11 Customs Commissionerates and 12 combined Commissionerates (Customs and GST), 10 zones accounted for 81 per cent (₹19,897 crore.) of total arrears pending during FY 2017-18 as shown in Table 1.6 below.

Table 1.6: Age wise and Zone wise Arrears of Customs Revenue as on 31 March 2018

CC Zone	Amount under dispute				Amount not under dispute				
	Less than 5 years	Five years but < 10 years	More than 10 years	Total (Col.2+3+4)	Less than 5 years	Five years but < 10 years	More than 10 years	Total (Col.6+7+8)	Grand total (col.5+9)
1	2	3	4	5	6	7	8	9	10
Ahmedabad Cus	2,860	596	214	3,670	278	48	157	483	4,153
Chennai Cus	1,793	368	309	2,469	269	181	169	619	3,088
Delhi Cus	1,271	108	41	1,420	1,283	123	68	1,474	2,895

Cr.₹

CC Zone	Amount under dispute				Amount not under dispute				
	Less than 5 years	Five years but < 10 years	More than 10 years	Total (Col.2+3+4)	Less than 5 years	Five years but < 10 years	More than 10 years	Total (Col.6+7+8)	Grand total (col.5+9)
Mumbai-I Cus	836	151	42	1,028	134	42	35	211	2,133
Bangalore Cus	1,348	340	91	1,779	54	41	9	104	1,883
Mumbai – II Cus	878	101	47	1,026	835	6	0	841	1,868
Kolkata Cus	920	191	26	1,137	379	38	53	469	1,606
Mumbai – III Cus	1,808	44	70	1,922	74	103	50	226	1,254
Vishakapatnam CE & GST	758	77	7	842	129	17	29	175	1,017
Pune CE & GST	552	12	2	567	11	0	35	46	613
Sub-total	13,024	1976	847	15,293	3,435	599	570	4602	19,897
Others	2,530	303	158	3,543	496	381	368	1,247	4,788
Grand Total	15,554	2279	1005	18,836	3931	980	938	5,849	24,685

Source: DG Performance management (TAR), Customs, Central Excise & Services

1.10.7 Chief Commissioner of Ahmedabad Zone had the highest quantum of arrears of custom duty in FY 2017-18, followed by Chennai and Delhi zones.

1.10.8 Age wise analysis of arrears revealed that ₹ 1,918 crore (33%) out of total ₹ 5,849 crore of undisputed arrears were lying unrecovered for more than five years. An amount of ₹ 938 crore is pending for recovery for more than ten years indicating that department is not acting proactively for recovery of the arrears which are undisputed.

1.11 Internal Audit

1.11.1 The internal audit of CBIC and its field formations comprises of technical audits conducted by Directorate General of Audit (DGA) and audit of payments and accounts conducted by the Principal Chief Controller of Accounts (Pr.CCA). DG (Audit) has its Headquarter located in Delhi, headed by Director General (Audit) with seven zonal units at Ahmedabad, Bangalore, Chennai, Delhi, Hyderabad, Kolkata and Mumbai each headed by Addl. Director Generals under its ambit. Every zonal unit of DGA has area wise jurisdictional control over zonal units of Chief Commissioner and Commissionerates there under.

1.11.2 CBIC informed that for the year 2017-18, DG (Audit) planned 19,58,900 units for audits, out of which 5,05,363 (26 percent) units were audited during the year. DG (Audit) detected short/non levy of duty of ₹ 564.75 crore out of which ₹ 53.61 crore was recovered.

1.11.3 According to information given by CBIC, during FY 18 the audit comments raised by Pr.CCA mainly consisted of the following irregularities, apart from points of establishment:

- a) Non recovery of dues from Govt. Department/State Government Bodies/Private parties/ Autonomous bodies; ₹ 2,163 crore;
- b) Blocking of government money; ₹ 3,552 crore on account of infructuous expenditure, irregular purchase/expenditure etc,

There were 244 internal audit paragraphs with gross value of ₹ 5,715 crore⁴ which were pending for final action and therefore not settled by Pr.CCA.

1.12 Tax Evasion and Seizures

1.12.1 According to information furnished by Directorate of Revenue Intelligence (DRI), the number of duty evasion cases moved up from 694 in FY 14 to 940 in FY 18 while the value decreased from ₹ 3,113 crore to ₹ 3,065 crore during the same period (**Annexure 1**).

1.12.2 Major commodities involved in evasion cases were Urea, Chemicals, Iron ore, Confectionary items, Alcoholic beverages, metal scrap, gold and gold jewellery, LED TVs, Red Sanders, Auto parts, Betel nut, PVC resin, Readymade garments, 4G LTE antennas, Smart cards and branded watches.

⁴ Pr CCA D.O. No. IA /NZ/HQ/CAG/Information/2017-18/194 dated 8 August 2018