Module 18 · Customs valuation P19 · topic 18.1

SM pp. 1104–1133 (exercise 1134–1136). **2–15 marks every paper** (expected 7.0). **Q7(b) assessable value + duty sum** in D25, J26 (and J24 Q7(a), J23); **MCQs (xi) and (xii)** on customs valuation in D24, D25, J26 (deductive value at the greatest aggregate quantity twice). **MQP Q7(b) = SM Illus. 4** word for word (the postal paper too).

Paper	Sum	MCQ
Jun'23	Q6(c) air freight cap, design, licence fee, buyer's material, buying commission · Q8(b) exchange rate, BCD rate, IGST base	charging section
Jun'24	Q7(a) gifted machine: AV, BCD, SWS, IGST (air freight, agent commission)	anti-dumping (not in the SM)
Dec'24	–	deductive value price · what computed value excludes
Jun'25	–	identical goods method
Dec'25	**Q7(b)** Yen: handling, design in India, buying commission, packing, ICD freight, two dates	freight unknown 20% · related party
Jun'26	**Q7(b)** air import: 20% air-freight cap, design fee abroad, two dates	deductive value price

A Section 14 and the valuation rules

- **s.14(1)**: value = **transaction value** — price for delivery at the time and place of importation, buyer and seller unrelated (or relationship not influencing), price the sole consideration; converted at the exchange rate notified by the **CBIC on the day the bill of entry is presented** (shipping bill for exports). [SM 1104, SM 1107]
- **Rule 3**: transaction value adjusted under rule 10, if: no restriction on use / disposal by the buyer; no unquantifiable condition; no resale proceeds back to the seller (unless adjusted); unrelated, or related but the value acceptable under rule 3(3) (D25 MCQ). [SM 1109]
- **Related persons (rule 2(2))**: officers / directors of each other, partners, employer–employee, a person holding **5% or more** of the voting shares of both (GST: 25%), control, common control, joint control of a third, same family; sole agent / distributor / concessionaire. [SM 1108]
- Then in order: **rule 4 identical goods** (same country, same producer first; lowest value; quantity adjustments only with evidence) → **rule 5 similar goods** → **rule 7 deductive** (or rule 8 at the importer's request) → **rule 8 computed** (cost + profit + rule 10(2) costs) → **rule 9 residual**. [SM 1120–1125]
- **Deductive value (rule 7)**: Indian sale price at the **greatest aggregate quantity**, less post-importation costs (commission, transport, insurance, duties in India). D24 / J26 MCQ, PTP. [SM 1122–1123]
- **Residual (rule 9) may not use**: Indian selling price of Indian goods; higher of two values; the exporter's home price; cost other than computed value; price to other countries; minimum values; arbitrary values. [SM 1125]
- Cases: **Aggarwal Industries** (SC) — contract price honoured despite a delayed shipment stands; **Essar Steel / Mangalore Refinery** (SC) — **demurrage** at Indian ports is post-importation, not added; **Gira Enterprises** (SC) — higher contemporaneous prices must be proved and shown to the importer. [SM 1109–1110, SM 1113, SM 1121]
- Illus. 2: a 30% shareholder supplier is not "in control"; a bulk-purchase discount is a valid reason — burden of proving under-valuation is on the Revenue. [SM 1108–1109]

B Rule 10 additions — the assessable-value format · Q7(b)

Step	Add / ignore
Ex-factory price + transport to the port + loading at the port	= **FOB**
Rule 10(1): commission and brokerage **except buying commission**; packing (not durable returnable packing); engineering, development, design, plans **undertaken outside India**; royalties and licence fees (condition of sale); resale proceeds to the seller; materials supplied free by the buyer	add
= **FOB as per Customs**	
Rule 10(2): freight, loading, unloading, handling to the place of importation — unknown → **20% of FOB**; by air → actual but **capped at 20% of FOB**; ship demurrage on chartered vessels, lighterage, barge charges	add
Insurance — unknown → **1.125% of FOB**	add
= CIF = assessable value (convert at the CBIC rate on the bill-of-entry date)	
Not added: duties and taxes in India; erection; transport / insurance from the port to the factory; development in India; port demurrage and unloading in India; other post-importation charges	ignore

[SM 1110, SM 1125–1126]

- **Rate of BCD**: rate on the date of presentation of the bill of entry or of **entry inwards** of the vessel (arrival of the aircraft), **whichever is later**; exchange rate always on the bill-of-entry date. [SM 1111 (chart)]
- **Duties**: BCD on AV · **SWS 10% of BCD** · IGST u/s 3(7) on (AV + BCD + SWS + other customs duties) · compensation cess on the same base · AIDC where levied (FA 2021). [SM 1113–1114, SM 1120]
- Tooling cost may be spread over the expected output (₹2,00,000 for 20,000 pieces → ₹20,000 on the first 2,000). [SM 1111]
- Buying commission = fee to the importer's own agent abroad for representing him → not added. [SM 1110]
- **Exports**: AV = FOB at the CBIC rate on the shipping-bill date; export duty at the rate on the **let export order** date — US$1,00,000 × ₹75 = ₹75,00,000 × 10% = ₹7,50,000 (Illus. 1). [SM 1107]

⚠ SM SLIP · ILLUSTRATION 5

The air-freight line prints "3,000 USD × ₹70.25" — the question's freight is **3,000 U.K. Pounds**; the working (cap at 20% of ₹8,98,125 = ₹1,79,625) is right. [SM 1119]

PROBLEMS BOX · ASSESSABLE VALUE + DUTY (Q7(b) — RECOMPUTED BY SCRIPT)

WORKED PATTERN A · SM ILLUSTRATION 4 (= MQP Q7(b), POSTAL Q5(b)), YEN

FOB	2,00,000
Designing charges to a Japanese firm (abroad)	30,000
Development work in India · road transport in India	not added
Agent commission 5% of FOB (SM: addable)	10,000
FOB as per Customs (Yen) → × ₹0.3948 (CBIC rate)	₹94,752
Insurance (Indian insurer) + freight 20,000 Yen × 0.3948	10,000 + 7,896
Assessable value	**₹1,12,648**

The bank's rate and the inter-bank rate are ignored. [SM 1118] ⚠ The question calls the 5% a "buying/local agent commission", yet the SM (and ICMAI's MQP answer) adds it; a true buying commission is not added (rule 10(1)). Follow the SM figure for this pattern, and state the assumption.

WORKED PATTERN B · SM ILLUSTRATION 5 (UK POUNDS, AIR FREIGHT CAP)

(10,000 + design 500 + licence fee 20% 2,000) × ₹70.25 = ₹8,78,125 + free materials ₹20,000 = ₹8,98,125; air freight lower of 20% = ₹1,79,625 and actual; + insurance ₹6,000 →

DEC'25 Q7(b) JKH (OUR WORKING, SM METHOD)

- FOB per Customs = 3,00,000 + handling 15,000 + packing 13,000 + 6,000 = **3,34,000 Yen** (design done in Mumbai, buying commission and port-to-ICD freight not added).
- Freight 40,000 + insurance 1.125% × 3,34,000 = 3,757.50 → CIF **3,77,757.50 Yen** × ₹0.64 (bill-of-entry date) = **₹2,41,765**.
- BCD at the later date (entry inward 23/01: 10%) **₹24,177** · SWS **₹2,418** · IGST 12% on ₹2,68,360 = **₹32,203** → total **₹58,798**.

JUN'26 Q7(b) RAVISHANKAR (OUR WORKING)

- FOB = CIF 60,000 − insurance 2,700 − freight 14,500 = 42,800 + design and patent charges abroad 2,500 = **US$45,300**.
- Air freight capped: 20% × 45,300 = 9,060 (actual 14,500) → CIF 45,300 + 9,060 + 2,700 = **US$57,060** × ₹81 (bill-of-entry date) = **₹46,21,860**.
- BCD at the rate on arrival (later date): 15% = **₹6,93,279**.

STEPS

1. Build FOB → add rule 10(1) items → FOB as per Customs.
2. Freight (20% if unknown; air capped at 20%) and insurance (1.125% if unknown) → CIF.
3. Exchange rate: CBIC, bill-of-entry date. Rate of duty: later of bill of entry / entry inward.

AV ₹10,83,750; buying commission and airport demurrage ignored. [SM 1119]

MCQ PATTERN · DEDUCTIVE VALUE (SM ILLUS. 6)

Greatest aggregate quantity 650 units at ₹90 → 500 × ₹90 = 45,000 − freight 10,150 − insurance 1,250 = **₹33,600**; duty 13.20% = **₹4,435**. [SM 1123]

4. BCD → SWS 10% of BCD → IGST on AV + BCD + SWS; round each to the rupee.

PRACTISE THESE

D25, J26 Q7(b) · J24 Q7(a) · J23 Q6(c), Q8(b) · MQP Q7(b), Q1(xi)–(xii) · PTP Q7(b), Q1(xi)–(xii) · postal Q5(b) · SM Illus. 1–8 (SM 1106–1126) · **ICMAI Practice Workbook Ch14 illus. 1–17, 20, 21** · MCQ bank Q70–Q78, Q155–Q158.

R Revision sheet

Item	Number / rule	SM
Freight unknown / air freight	**20%** of FOB / actual capped at **20%**	[SM 1110, SM 1126]
Insurance unknown	**1.125%** of FOB	[SM 1110]
Related person (customs)	**5%** or more of voting shares of both	[SM 1108]
Social Welfare Surcharge	**10%** of BCD	[SM 1120]
Exchange rate	CBIC rate, date of **bill of entry** / shipping bill	[SM 1104]
Rate of import duty	later of bill of entry / entry inwards	[SM 1111 (chart)]
Rate of export duty	date of let export order	[SM 1107]

MEMORY HOOK

"Abroad in, India out; buying out, selling in; 20 and 1.125." Design abroad is added, development in India is not; buying commission out, selling commission in; freight 20%, insurance 1.125%.