

CHAPTER XX: MINISTRY OF TEXTILES

National Textiles Corporation Limited

20.1.1 Excess payment of customs duty

Failure to claim concessional rate of custom duty under 'Project Imports' for machinery imported for expansion of mills resulted in excess payment of customs duty by Rs.2.26 crore.

As per Chapter 98 of the Customs Tariff Act, all machinery imported for the initial setting up of a unit or for substantial expansion of an existing unit would be classified under the head 'Project Imports' and eligible for concessional rate of import duty, provided the expansion in capacity was not less than 25 *per cent*. However, for availing the benefit of concessional rate of duty, the importer had to apply for registration of the contract at the port where the goods were to be imported or where the duty was to be paid.

National Textile Corporation Limited (Company) decided (August 2007) to modernise its two mills, i.e., Tata Mills and United India Mill No.5 at a cost of Rs.90.79 crore. The modernisation of the mills involved the installation of new machinery and component parts which were imported during the period July 2007 to September 2008. After installation of new machines, the installed capacity of the Tata Mills registered an increase of 38.12 *per cent* (from 25,080 spindles to 34,640 spindles) and United India Mill No.5 registered an increase of 49.75 *per cent* (from 26,048 spindles to 39,008 spindles).

It was observed in Audit that despite being eligible for concessional rate of import duty, the Company did not register the contract for purchase of machinery with the Custom authorities at Mumbai port. The Company thus paid custom duty at normal rate (effective rate of 28.64 *per cent*) under the tariff head applicable for textile machinery instead of the concessional rate of import duty under Chapter 98 (effective rate of 20.75 *per cent*). The cost of machinery and spare parts imported was Rs.39.68 crore and import duty of Rs.8.58 crore was paid by the Company as against the concessional duty of Rs.6.32 crore. Thus, failure on the part of NTC to register the contract for import of machinery with the Customs authorities resulted in excess payment of customs duty amounting to Rs.2.26 crore.*

The Management in respect of Tata Mills, stated (July 2009) that the increase in capacity of the mill was only 21.12 *per cent* from 28,600 spindles to 34,640 spindles.

* Rs.8.58 crore minus Rs.6.32 crore.

The reply is not acceptable. The Modernisation Plan of Tata mills and Annual Accounts for the year 2008-09 of the Company show that the installed capacity had actually increased from 25,080 spindles to 34,640 spindles by 38.12 *per cent*.

Thus, failure to claim concessional rates of custom duty for machinery imported for expansion of mills resulted in excess payment of customs duty by Rs.2.26 crore during the period July 2007 to September 2008.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).