Chapter I
Department of Revenue -Customs Revenue

1.1 Resources of the Union Government

The Government of India's resources include all revenues received by the Union Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans. Tax revenue resources of the Union Government consist of revenue receipts from direct and indirect taxes. Table 1.1 presents a summary of receipts of the Union Government, which amounted to ₹ 53,67,988.99 crore[1] for FY 2012-13. Out of this, its own receipts were ₹ 13,99,951.05 crore including gross tax receipts of ₹ 10,36,460.45 crore.

TABLE 1.1: RESOURCES OF THE UNION GOVERNMENT

	Cr. ₹
A. Total Revenue Receipts	13,47,437.62
i. Direct Tax Receipts	*5,58,989.47*
ii. Indirect Tax Receipts including other taxes	*4,77,470.98*
iii. Non-Tax Receipts including Grants-in-aid & contributions	*3,10,977.17*
B. Miscellaneous Capital Receipts	25,889.80
C. Recovery of Loan & Advances	26,623.63
D. Public Debt Receipts	39,68,037.94
Receipts of Government of India (A+B+C+D)	**53,67,988.99**
Note: Total Revenue Receipts include ₹ 2,91,546.61 crore, share of net proceeds of direct and indirect taxes directly assigned to states.	

1.2 Nature of Indirect Taxes

Indirect taxes attach themselves to the cost of the supply of goods/services and are, in this sense, transaction-specific rather than person-specific. The major indirect taxes/duties levied under Acts of Parliament are:

a) **Customs duty:** 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).

b) **Central Excise duty:** Duty is levied on manufacture or production of goods in India. Parliament has powers to levy excise duties on tobacco and other goods manufactured or produced in India except alcoholic liquors for human consumption, opium, Indian hemp and other narcotic drugs and narcotics but including medicinal and toilet preparations containing alcohol, opium etc (Entry 84 of List 1 of the Seventh Schedule of the Constitution).

[1] Source: Union Finance Accounts of FY 2012-13. The figures are provisional. Direct Tax Receipts and Indirect Tax Receipts including other taxes have been worked out from the Union Finance Accounts of FY 2012-13.

c) **Taxes on Services:** Service Tax is levied on services provided within the taxable territory (Entry 97 of List 1 of the Seventh Schedule of the Constitution).[2]

This chapter discusses trends, composition and systemic issues in Customs duties using data from Finance accounts, departmental accounts and relevant data available in public domain and departmental MIS.

1.3 Organisational Structure

The Department of Revenue (DoR) of MOF functions under the overall direction and control of the Secretary (Revenue) and coordinates matters relating to all the Direct and Indirect Union Taxes through two statutory Boards namely, the Central Board of Excise and Customs (CBEC) and the Central Board of Direct Taxes (CBDT) constituted under the Central Board of Revenue Act, 1963. Matters relating to the levy and collection of Customs are looked after by the CBEC.

In addition, DoR is also responsible for the Indian Stamp Act 1899 (to the extent falling within the jurisdiction of the Union), the Central Sales Tax Act 1956, the Narcotic Drugs and Psychotropic Substances Act 1985 (NDPSA), the Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976 (SAFEMA), the Foreign Exchange Management Act, 1999 (FEMA) and the Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974 (COFEPOSA), the Prevention of Money Laundering Act, 2002 (PMLA) and the attached/ subordinate offices for intelligence, enforcement, ombudsman and quasi judicial functions.

The overall sanctioned staff strength of the CBEC is 68,795[3]. The organizational structure of CBEC is shown in **Appendix 1**.

1.4 Growth of Indirect Taxes - Trends and composition

Table 1.2 gives the relative growth of indirect taxes during FY 09 to FY 13. The percentage share of indirect taxes to GDP was around 5 per cent during last five years. The share of indirect taxes to gross tax revenues[4] has remained stagnant around 44-45 percent during the period. GDP has grown by 80 percent and gross tax revenue by 71 percent during this period. GDP increased from ₹ 56.30 lakh crore in FY 09 to ₹ 101.13 lakh crore in FY 13 whereas Indirect Taxes increased from ₹ 2.70 lakh crore in FY 09 to ₹ 4.75 lakh crore in FY 13.

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[2] The Constitution (Eighty-eighth Amendment) Act, 2003, which received the assent of the President on 15 January 2004 was introduced to provide for the insertion of Article 268A, amendment of Art 270 and insertion of Entry 92C, 'tax on services', in List 1 of the Seventh Schedule. However, the Act is yet to come into force.

[3] Figures furnished by the Ministry as on 31 March 2013.

[4] Source: Union Finance Accounts of respective years, GDP – Figures of GDP provided by Central Statistical Organisation in February 2013.

Table 1.2: Growth of Indirect Taxes

Cr. ₹

Year	Indirect Taxes	GDP	Indirect Taxes as % of GDP	Gross Tax Revenue	Indirect Taxes as % of Gross Tax Revenue
FY 09	2,69,988	56,30,063	4.80	6,05,298	44.60
FY 10	2,45,373	64,77,827	3.79	6,24,527	39.29
FY 11	3,45,371	77,95,314	4.43	7,93,307	43.54
FY 12	3,92,674	90,09,722	4.36	8,89,118	44.16
FY 13	4,74,728	1,01,13,281	4.69	10,36,460	45.80

Source: Finance Accounts, Figures for FY 13 are provisional

1.5 Growth of Customs Receipts - Trends and composition

Customs revenue as a ratio of GDP has been stagnant at around 1.7 percent.

Table 1.3 below gives the growth trends of Customs Revenue in absolute and GDP terms during FY 09 to FY 12. The Customs Revenue as percentage of GDP shows declining trend in the FY12 and FY 13. Though, the Customs Revenue as a percentage of Indirect taxes showed marginal increase from 33.96 percent in FY 10 to 38.03 in FY 12, but it declined to 34.83 percent in FY 13.

Table 1.3: Growth of Customs Receipts Cr.₹

Year	GDP	Gross Tax Revenues	Gross Indirect Taxes	Customs Receipts	Customs Revenue as % of GDP	Customs Revenue as % of Gross tax	Customs as % of Indirect taxes
FY 09	56,30,063	6,05,298	2,69,988	99,879	1.77	16.50	36.99
FY 10	64,77,827	6,24,527	2,45,373	83,324	1.29	13.34	33.96
FY 11	77,95,314	7,93,307	3,45,371	1,35,813	1.74	17.12	39.32
FY 12	90,09,722	8,89,118	3,92,674	1,49,328	1.66	16.80	38.03
FY 13	1,01,13,281	10,36,460	4,74,728	1,65,346	1.63	15.95	34.83

Source: Finance Accounts, FY 13 figures are provisional

Ministry of Finance, CBEC (Ministry) stated (March 2014) that the collections of Customs Revenue in a financial Year depend on a number of factors viz. tax policy, volume of imports, exchange rate of leading international currencies and international prices of imported goods.

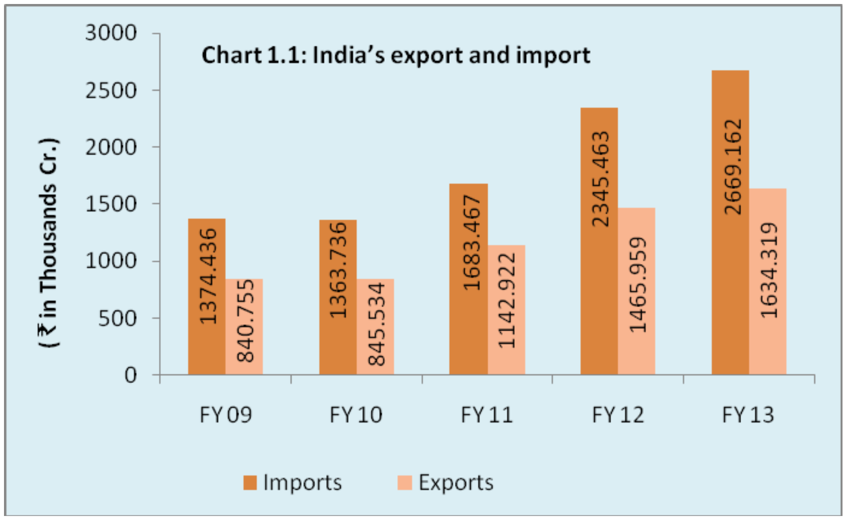
1.6 India's export and import for FY 09 to FY 13

Exports have recorded a growth of 11.48 percent (₹ 1,68,360 crore) during FY 13 as compared to 28.26 percent (₹ 3,23,037 crore) in FY 12 (Table 1.4). Imports registered a growth of 13.80 percent (₹ 3,23,699 crore) as compared to growth of 39.32 percent (₹ 6,61,996 crore) during the same period.

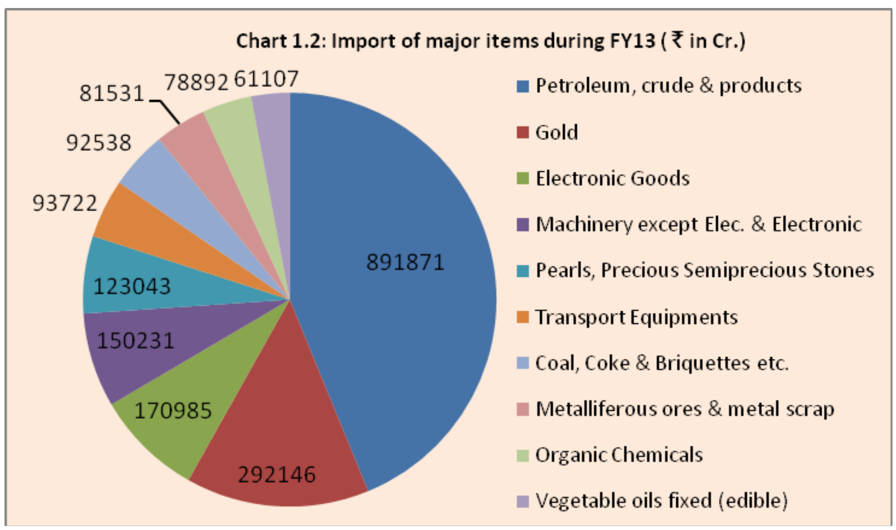
Table 1.4: India's export and import Cr. ₹

Year	Imports	Growth %	Customs Receipts	Growth %	Exports	Growth %	Trade Imbalance
FY 09	1374436	35.77	99879	-4.07	840755	28.19	-533681
FY 10	1363736	-0.78	83324	-16.58	845534	0.57	-518202
FY 11	1683467	23.45	135813	62.99	1142922	35.17	-540545
FY 12	2345463	39.32	149328	9.95	1465959	28.26	-879504
FY 13	2669162	13.80	165346	10.73	1634319	11.48	-1034843

Source: EXIM data, Department of Commerce



The top five major imports during the last five years were Petroleum products, Gold, Electronic goods, Machinery (except Electrical and Electronic) and Pearls, Precious and Semi-precious stones. The Petroleum products have shown a growth of 20 percent in FY 13 over the previous year, while Gold has shown growth of 8 percent during the same period. These commodities accounted for almost 44 percent of total imports during FY 13.



Similarly, the top five major Export commodities during the last five years were Petroleum (Crude and Products), Gems and Jewellery, Transport equipments, Machinery and instruments, and Drugs - Pharmaceuticals and Fine Chemicals. The Petroleum (Crude and Products) has shown growth of 20 percent during FY 13 than previous year, while Gems and Jewellery have shown growth of 10 percent during this period. These commodities accounted for almost 35 percent of total exports during FY 13.

Top five exporting countries to India during the FY 13 were China, United Arab Emirates, Saudi Arabia, Switzerland and United States of America. Similarly top five importing countries during FY 13 were United Arab Emirates, United States of America, Singapore, China and Hongkong.

1.7 Tax base

The customs revenue base will comprise of the Importers and Exporters issued with Importer Exporter Code (IEC)[5] by the Director General of Foreign Trade (DGFT). As on January 2014 there are 864022 valid IECs. There are 345 active ports at present which comprises 102 EDI, 71 Non-EDI, 66 Manual and 106 SEZ During 2012-13, ₹ 4.44 lakh crore exports and ₹ 26.70 lakh crore worth of imports transactions took place. Nineteen trade agreements providing some kind of tariff concession (**Appendix 2**), Customs Receipts (₹ 1,65,346 crore) along with duty forgone (₹ 3,20,723.42 crore) are being audited.

1.8 Growth in Imports and Customs Receipts

The customs revenue collected has not grown in tandem with the value of imports.

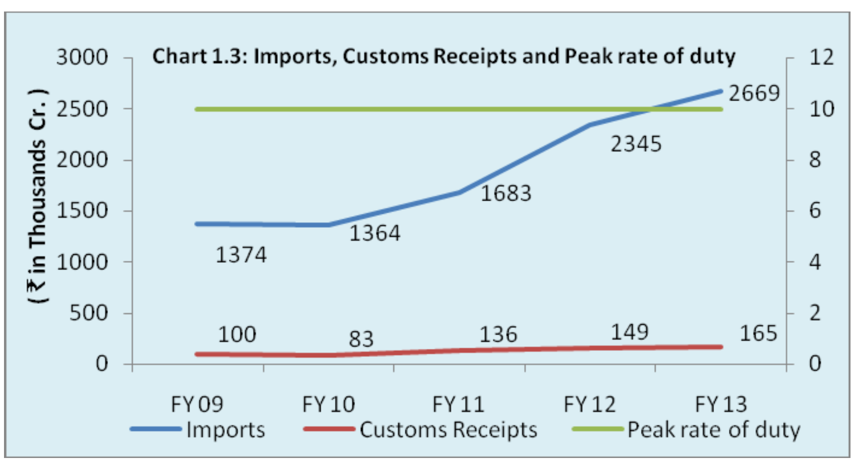
The value of imports during the FY 13 had shown growth of 13.80 percent (Table 1.5) over the previous year. The growth of the Customs revenue was 10.73 percent in FY 13. During FY 09 to FY 13 the value of imports had shown growth of 94 percent**,** while customs receipts have increased only by 66 percent, although the peak rate remained unchanged at 10 percent during this period.

Table 1.5: Growth in Imports and Customs Receipts

Cr.₹

Year	Imports	Growth %	Customs Receipts	Growth %	Peak rate of duty
FY 09	1374436	35.77	99879	-4.07	10.00
FY 10	1363736	-0.78	83324	-16.58	10.00
FY 11	1683467	23.45	135813	62.99	10.00
FY 12	2345463	39.32	149328	9.95	10.00
FY 13	2669162	13.80	165346	10.73	10.00

Source: Union Budget, EXIM Data- Department of Commerce



[5] IEC is issued by DGFT, Delhi to every importer/Exporter.

1.9 Monitoring of Departmental performance

Department of Revenue does not have a results framework document with objectives, activities, performance and success indicators in line with the subjects of its business allocation, for clearer performance monitoring and evaluation.

Though Business rules prescribe the subjects allocated to DoR but because of absence of measurable performance indicator as required in Result Framework Document (RFD)[6], its revenue policy strategy and methodology of gauging its performance is not known. Department of Revenue does not prepare the results framework document (RFD) as is done by 74 other ministries and departments of Government of India with responsibility centers (RC) though, there is one annual report and outcome budget for the entire Ministry of Finance with five big departments and numerous RCs.

1.10 Budgeting issues in Customs receipts

Fluctuating gap between Revised Estimates/ Budget Estimates suggests that the department did not adopt any rational method for pre budget analysis and forecasting.

Despite the actual collections falling short of the budget estimates year after year, the Government continued to make optimistic projections during presentation of the Annual Budget. The percentage variation during the last five years between budget estimates and actual collections was in the range of (-) 16.02 percent to (+) 18.10 percent as shown in Table 1.6 below. The revised estimates to actual receipts also varied from (-) 7.52 percent to (+) 3.04 percent.

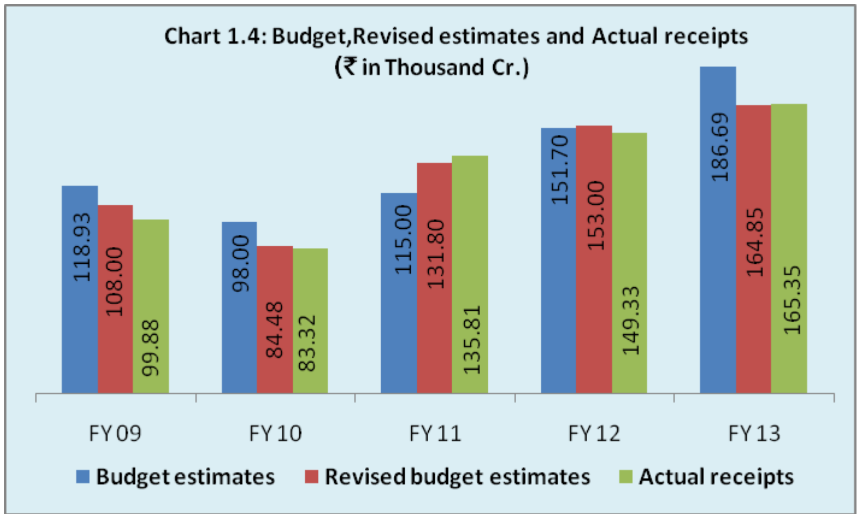
Table 1.6: Budget and Revised estimates, Actual receipts

Cr.₹

Year	Budget estimates	Revised budget estimates	Actual receipts	Diff. between actuals and BE	%age variation between actuals and BE	%age variation between actuals and RE
FY 09	118930	108000	99879	(-)19051	(-)16.02	(-)7.52
FY 10	98000	84477	83324	(-)14676	(-)14.98	(-)1.36
FY 11	115000	131800	135813	(+)20813	(+)18.10	(+)3.04
FY 12	151700	153000	149328	(-)2372	(-)1.56	(-)2.40
FY 13	186694	164853	165346	(-)21348	(-)11.43	(+)0.30

Source: Union Budget and Finance Accounts

[6] RFD is required to be prepared under the “Performance Monitoring and Evaluation System (PMES)” of Cabinet Secretariat.



Ministry stated (March 2014) that the collection of Customs Revenue in a financial year depends on a number of factors viz. tax policy, volume of imports, exchange rate of leading international currencies and international prices of imported goods. The actual behavior of these economic factors during a year may be at variance with the estimates made prior to the commencement of the financial year. Final revenue receipts in a year may fall or rise vis-à-vis BE/RE due to these economic factors.

Ministry's reply may be viewed in the context of the fact that these factors were known before preparing the BE and should have been factored therein. In addition, there was always an opportunity available for midway course correction in the form of RE to present a pragmatic picture.

1.11 Customs Revenue forgone under Customs Act, 1962

The Customs Revenue forgone is increasing exponentially without commensurate increase in the exports.

The Central Government has been delegated powers of duty exemption under Section 25(1) of the Customs Act, 1962 to issue notifications in public interest so as to prescribe duty rates lower than the tariff rates prescribed in the Schedule to the Customs Tariff Act. These rates prescribed by notification are known as the "effective rates".

The revenue forgone is thus defined to be the difference between duty that would have been payable but for the issue of the exemption notification and the actual duty paid in terms of the relevant notification. In other words,

Revenue forgone= Value X (Tariff rate of duty – Effective rate of duty)

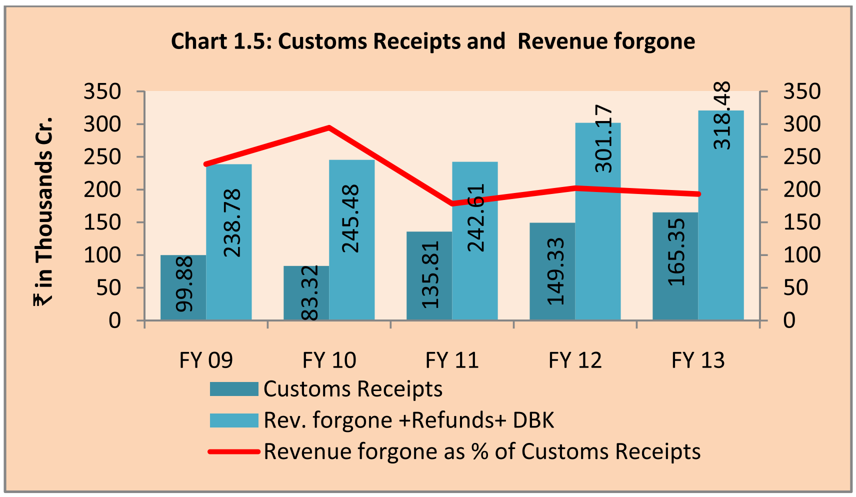
The Revenue forgone as percentage of Customs Receipts during the last five years ranged from 179 to 295 percent (Table 1.7). During the FY 13, 86 percent of the Revenue forgone was on the commodities, Crude and mineral oils, Diamond and Gold, Machinery, vegetable oils and cereals, chemicals and plastics. The Revenue forgone under Export Promotion schemes accounts for 44 percent of the Customs Receipts during the FY 13 (Table 1.8).

Table 1.7: Customs Receipts and Total Customs Revenue forgone

Cr.₹

Year	Customs Receipts	Revenue forgone on commodities including Schemes	Refunds	Drawback paid	Rev. forgone +Refunds+ DBK	Revenue forgone as % of Customs Receipts
FY 09	99879	225752	912.14	12116	238780.14	239.07
FY 10	83324	233950	2309.32	9219	245478.32	294.61
FY 11	135813	230131	3474.05	9001	242606.05	178.63
FY 12	149328	285638	3202.36	12331	301171.36	201.68
FY 13	165346	298094	3031.42	17355	318480.42	192.61

Source: Union Receipts Budget, CBEC DDM, CBEC.



Scheme wise duty forgone ranged from 63 percent to 44 percent between FY 09 to FY 13 (Table 1.8). The statement of Revenue forgone would serve the purpose better, if the Revenue outcome assessments of the various promotional schemes, trade agreements and general exemptions are made available as a part of the budget document.

Table1.8: Revenue forgone under various Export promotion schemes

Scheme	Amount forgone/disbursed				Cr.₹
	FY 09	FY 10	FY 11	FY 12	FY 13
1. Advance Licence	12389	10089.21	19355.28	18306.12	18971.02
2. SEZ	2324.29	3987.06	8630.16	4559.87	4490.58
3. EOU/EHT/STP	13400.65	8076.46	8579.87	4554.64	5881.06
4. EPCG	7832.71	7020.25	10621.24	9672.28	11218.25
5. Duty Drawback (excluding at Sl.No. 8 below)	12116.07	9218.96	9001.39	12331.41	17354.72
6. DEPB (excluding at 7 below)	7087.49	8008.45	8736.4	10404.37	2706.13

Scheme	Amount forgone/disbursed				Cr.₹
	FY 09	FY 10	FY 11	FY 12	FY 13
7. DEPB benefits availed by SEZ units	4.52	19.51	20.15	4.52	3.23
8. Drawback benefits availed by SEZ units	4.45	12.28	17.85	2.55	8.92
9. DFRC	110.61	62.3	43.53	39.93	21.46
10. DFECC Schemes to status holder (NTN.53/03-Cus)	342.32	179.74	96.6	69.93	94.81
11. DFECC Schemes to Status holder (NTN.54/03-Cus)	75.4	54.16	59.79	120.42	47.10
12. Target plus schemes- Notification No. 32/2005-Cus and 73/2006-Cus.	1220.12	267.28	373.99	436.31	592.05
13. Vishesh Krishi and Gram Udyog Yojana Notification No. 41-2005-Cus.	2059.11	2868.68	1788.48	2263.34	2382.37
14. Served from India Scheme Notification No. 92/2004-Cus.	530.53	514.86	542.18	555.46	590
15. DFIA Schemes Notification No. 40/2006-Cus.	1267.6	1398.55	1403.99	1224.33	1735
16. Focus Market Scheme –Notification No. 90/2006-Cus.	264.05	432.38	548.12	894.46	1599.28
17. Focus Product Scheme –Notification No. 91/2006-Cus.	144.16	396.26	1209.46	3056.31	4578.78
TOTAL	**61173.08**	**52606.39**	**71028.48**	**68678.39**	**72274.86**
% of Customs Receipts	**61.25**	**63.13**	**52.30**	**45.82**	**43.54**

Source: Directorate of Data Management, CBEC, Ministry of Finance

The first five commodities contributing to majority of revenue forgone are:

a. Precious stones, jewellery
b. Mineral fuels and mineral oils
c. Animal or vegetable fats
d. Machinery
e. Electrical machinery

1.12 Customs procedure and Trade facilitation

ICT based solutions (ICES) were not extended to all customs transactions

The Government continued to streamline customs procedures and implement various trade facilitation measures. Self Assessment is a major trade facilitation measure that could result in significant reduction in the time taken for clearance of imported/export goods through Customs as witnessed in the case of Excise and Service tax department. Some of the initiatives taken include the introduction of EDI, "self assessment" for imports as well as exports and increased coverage of the risk management system (RMS) to carry out assessment on randomly selected bills of entry based on risk parameters and On Site Post Clearance Audit (OSPCA). The level of customs intervention in the clearance of import and export cargoes is intended to progressively reduce. In addition, AEO (Authorized Economic Operator) and large taxpayer unit (LTU) have been introduced for international and national facilitation. For expeditious sanction and refund of 4 per cent SAD, the procedures applied in general and especially for ACP importers have been simplified for sanction of refund without pre-audit within a fixed time of 30 days. Further, the utilization of refund of 4% SAD paid through different scrips such as DEPB/Reward Schemes has been relaxed by allowing manual registration of such scrips. Time release studies have been conducted in limited ports, however, the same has not been correlated with the facilitation measures or savings in transaction costs.

Ministry stated (March 2014) that Time release study has been conducted to find out constraints in smooth customs clearance procedure and improvement, if required to ensure smooth clearance. The trade facilitation measures initiated have a bearing on reduction of transaction cost and dwell time.

It was not known to Audit whether outcome of such study in reduction of transaction cost and dwell time has been quantified in all the ports.

1.13 Risk Management system (RMS)

Efficiency of RMS hinges on the precision of the outliers highlighted and increasing the coverage of the ICT application to all air cargo, sea port and land ports, SEZ / EOU. It does not include the non-EDI ports and all filings in the EDI ports. Number of Import transactions flagged by RMS declined from 16.31 lakh during FY 11 to 7.07 lakh in FY 13 (Table 1.9), while import transactions rose from ₹ 53.33 lakh to ₹ 65.62 lakh during the same period. RMS in exports has been launched in July 2013 and 3007 transactions in two ports were flagged by RMS up to August 2013.

Table 1.9: Transactions flagged by the RMS

No. of transactions flagged by RMS	FY11	FY12	FY13 (up to 31.8.2013)
Imports	16,31,287	12,52,001	7,04,184
Exports			3007

1.14 On Site Post Clearance Audit (OSPCA) Scheme

After introduction of OSPCA, on the one hand Customs department had effectively tapered the audit of ACP clients, while on the other the OSPCA scheme had not fully picked up. During the FY13, out of 434 planned, audit of 215 units under OSPCA, was conducted which resulted in detection of short levy of ₹ 120.61 crore, of which ₹ 2.91 crore (2.41 percent) was recovered.

The present level of ICT application (ICES) needs to be augmented and self assessment needs to be extended to all official customs transactions for an effective facilitation.

1.15 24X7 Customs Clearance Operation

In order to facilitate imports and exports the Board decided to begin on a pilot basis 24X7 customs clearance with effect from September 1st 2012 at identified Air cargo complexes (Chennai, Mumbai, Delhi and Bangalore) and seaports (Kandla, JNPT, Chennai and Kolkata) in respect of following categories of imports and exports:

a. Facilitated Bills of Entry where no examination and assessment is required; and
b. Factory stuffed export containers and export consignment covered by Free Shipping Bills.

In order to further facilitate trade, coverage of 24X7 customs clearance operations was extended to cover export consignments at four air cargo complexes. Further, 24X7 services for select import and export documents have now been extended to 17 operational air cargo complexes working on EDI. This initiative has been widely appreciated by trade and industry, though availability of customs staff is one of the constraints.

1.16 Single window Customs clearance

In order to cut transaction cost and time, as well as for better utilization of resources, implementation of single window scheme has been conceptualized by CBEC with customs being lead agency to implement the same.

Single window in customs aims to provide a platform for traders to file a common declaration electronically, meeting requirements of other regulatory agencies involved in clearance process of imported/exported goods. Under single window regime, data fields/information relating to other regulatory agencies is transmitted electronically to get their clearance/input before clearance is allowed by customs.

1.17 Performance of Special Economic Zones in FY 12 to FY 13

There was no outcome analysis of the Scheme at the macroeconomic level.

Under the SEZ Act 2005, there are 572 approvals given for establishing SEZs, of which 389 have been notified; in addition, there are about 48 in-principle approvals for SEZ There are 38612 units approved in these SEZs. A total of ₹ 288477 crore has been invested resulting in generation of employment for 1239845 persons. It has shown a growth of 31 percent over 2011-12 with exports of ₹ 476159 crore (Table 1.10 below). Despite a huge growth in exports from SEZ after the Act came into force there is still no revenue outcome analysis at the economic and the Government levels. Most of the quoted performance figures when de-trended may indicate exogenous influences including changes in taxation policy with respect to SEZ and SEZ units.

Table 1.10 : Performance of SEZs in FY 12 TO FY 13

Exports in 2011-12	₹364477.73 crore (Growth of 15.39% over 2010-11)
DTA Sale (Counted for +ve NFE)	₹32472.70 crore (8% of total production)
DTA Sale (Not counted for +ve NFE)	₹13881.20 crore (3.87% of total production)
Exports in 2012-13	₹476159 crore (Growth of 31% over 2011-12)
DTA Sale (Counted for +ve NFE)	₹27884.80 crore (5% of total production)
DTA Sale (Not counted for +ve NFE)	₹27545.46 crore (5% of total production)

Source: www.sezindia.nic.in

1.18 Human Resources management objectives in CBEC

Director General of Human Resource Development formed in November 2008 has specific roles with respect to Cadre management, Performance management (of group and individual levels), capacity building, strategic vision development and welfare and Infrastructure divisions for a 68,795 strong work force. Inputs for CBEC's five year strategic plan was sought by DG Inspection of CBEC in Feb 2013 so that:

a. Indirect tax to GDP ratio could be improved;
b. A robust RMS covering all ports and transactions could be in place;
c. Officials and officers are trained to use ICES proficiently;
d. Technical audit procedures are strengthened.

During FY 13, National Academy of Customs, Excise and Narcotics conducted 431 training courses (82 ICT and 349 other courses). Out of 14,615 officers trained, 6,782 were trained in ICT courses during this period (Table 1.11). No training course was conducted by NACEN, RTI, Mumbai and NACEN, RTI, Hyderabad during FY 13, although there was excess working strength of 43 Deputy/Assistant Commissioners under the DG, NACEN.

Table1.11: Trainings conducted during FY 13

Sl. No	Name of the Regional Training Institutions	Number of Courses and Participants			
		Training related to information and communication technology (ICT) applicable to CBEC & field formation		Other than ICT training	
		No. of courses	No. of participants	No. of courses	No. of participants
1.	NACEN Faridabad	1	14	28	582
2.	NACEN RTI , Delhi	6	1319	58	751
3.	NACEN, RTI Mumbai	21	-	110	-
4.	NACEN RTI Kolkata	22	828	58	1442
5.	NACEN RTI Chennai	4	1363	11	696
6.	NACEN RTI Kanpur	18	742	57	1576
7.	NACEN RTI Bangalore	2	911	3	37
8.	NACEN RTI Vadodara	5	1152	57	1350
9.	NACEN RTI Hyderabad	40	-	53	-
10	NACEN RTI Patna	24	453	77	1399
	Total	**82**	**6782**	**349**	**7833**

Source: National Academy of Customs, Excise & Narcotics

The RFD FY 13 of CBEC already covers the important activities mentioned above. The measurement and success indicators are not correlated with the policy decisions already taken by Government in case of self assessment, OSPCA, RMS and use of ICT, ICES. Since Customs duty is intertwined with other tax and foreign policies of Government, there is a need to look at the systemic level for restructuring and re-allocation of human resources after honing appropriate skills and filling the capacity gaps.

1.19 Arrears of customs duties

There is a need to strengthen the recovery mechanism of the department.

Customs revenue of ₹ 11,835.91 crore demanded up to March 2013, was not realised by the department at the end of the FY 13 (Table 1.12). Of this, ₹ 2,468 crore was undisputed. However, ₹ 1,253.93 crore (51 per cent) of the undisputed amount had not been recovered for a period of over five years.

Table 1.12: Arrears of Customs duties

Cr.₹

Zone	Amt. under dispute				Amt. not under dispute				
	Less than five years	Five years but Less than ten years	More than ten years	Total (Co.2+3+4)	Less than five years	Five years but Less than ten years	More than ten years	Total (Co.6+7+8)	Grand total (Col.5+9)
1	2	3	4	5	6	7	8	9	10
Cx. Delhi	61.41	1.35	0	62.76	2.01	19.16	0	21.17	83.93
Chandigarh	13.15	2.94	0	16.09	7.94	6.53	6.49	20.96	37.05
Meerut	20.11	402.90	5.72	428.73	6.11	2.01	0.08	8.20	436.93
Jaipur	18.63	4.60	14.53	37.76	0.46	3.21	10.60	14.27	52.03
Lucknow	0	0	1.86	1.86	0.95	0	0	0.95	2.81
Cus. Delhi	950.51	306.69	20.78	1277.98	37.86	52.11	44.32	134.29	1412.27
Cus. (P) Delhi	385.06	5.36	22.42	412.84	320.14	4.56	0.31	325.01	737.85
LTU Delhi	0	0	0	0	0	0	0	0	0
Nagpur	91.91	48.65	0.02	140.58	0.34	0.03	1.24	1.61	142.19
Pune	19.82	49.83	4.28	73.93	1.25	10.61	2.78	14.64	88.57
Vadodara	150.01	2.70	10.66	163.37	2.35	2.62	8.42	13.39	176.76
Ahmedabad (Cx.)	42.34	12.08	0	54.42	0	0	0	0	54.42
Ahmedabad (Cus.)	1173.79	148.22	174.26	1496.27	10.41	1.09	46.42	57.92	1554.19
Bhopal	279.83	38.05	36.98	354.86	0.09	0	12.90	12.99	367.85
Bangalore (Cus.)	761.50	11.63	3.71	776.84	75.31	11.95	11.63	98.89	875.73
Chennai (Cus.)	511.42	246.15	37.52	795.09	91.99	249.74	33.30	375.03	1170.12
Chennai Cus. (P)	17.56	2.60	1.26	21.42	53.82	19.83	1.17	74.82	96.24
Bangalore	58.57	49.66	17.67	125.90	0	0	0	0	125.90
Chennai	161.75	0.73	0.11	162.59	0	0.22	0.17	0.39	162.98
Coimbatore	2.87	8.30	0.72	11.89	71.50	40.48	0.12	112.10	123.99
Hyderabad	54.79	31.54	8.95	95.28	12.22	20.65	9.50	42.37	137.65
Cochin	15.89	6.02	9.45	31.36	2.49	28.92	3.94	35.35	66.71
Mysore	22.83	0.67	0	23.50	1.55	0	9.01	10.56	34.06
Vizag.	162.25	62.61	31.84	256.70	32.53	32.52	18.15	83.20	339.90
Kolkata (Cus.)	287.28	19.33	16.75	323.36	34.02	38.44	23.21	95.67	419.03
Patna Cus. (P)	0	0.02	0.48	0.5	0	2.29	0.31	2.60	3.10
Bhubaneswar	0	12.49	2.27	14.76	0	0.37	0.31	0.68	15.44
Shillong	0	2.68	0	2.68	9.93	0	0	9.93	12.61
Mum. Cus. Zone -I	530.22	255.86	22.19	808.27	279.88	67.78	151.75	499.41	1307.68
Mum Cus. Zone -II	262.72	78.05	0.47	341.24	26.98	12.42	1.23	40.63	381.87
Mum. Cus. Zone -	478.38	209.97	52.09	740.44	89.80	84.94	24.81	199.55	939.99

Zone	Amt. under dispute				Amt. not under dispute				
	Less than five years	Five years but Less than ten years	More than ten years	Total (Co.2+3+4)	Less than five years	Five years but Less than ten years	More than ten years	Total (Co.6+7+8)	Grand total (Col.5+9)
III									
Mum. Cx.-I	104.55	52.98	4.18	161.71	15.33	8.18	111.10	134.61	296.32
Mum. Cx.-II	27.40	55.57	2.81	85.78	26.85	0	0	26.85	112.63
Mum. LTU	0	67.11	0	67.11	0	0	0	0	67.11
Grand total	**6666.55**	**2197.34**	**503.98**	**9367.87**	**1214.11**	**720.66**	**533.27**	**2468.04**	**11835.91**

Source: Chief Commissioner, Tax Arrears Recovery, Central Excise, Customs & Service Tax

Ministry stated (March 2014) that in order to boost the Tax arrears recovery various measures have been chalked out which included creation of computerized database of arrears and regular updating/review by the field formations, regular inspection of arrears and advising field formations for suitable action. Field formations have been directed to create a dedicated team of officers for recovery of arrears beside a Handbook on Recovery of arrears of Revenue of Customs, Excise and Service Tax has been published and circulated to all formations to provide a first hand information of arrears.

Audit would look forward to outcome of measures chalked out by the Ministry.

1.20 Additional revenue realized because of Directorate General of Valuation

As a result of inputs given by the Directorate General of Valuation (DGOV), additional revenue realized during last five years is as shown in Table 1.13. During the last five years the ratio of realized amount to the Customs revenue collected ranged from 0.68 to 0.85 percent. With the reduced tariff, greater depth of classification and enhanced ICT application, valuation could be leveraged for a greater significance.

Central Board of Excise and Customs (Board) stated (November 2013) that the DGOV does not flag any export/import transaction before assessment nor determine the value as this is done by the assessing formations; accordingly value of import and export transactions flagged (CTH wise) by DGOV during the year FY 12 and FY 13 was not provided.

Table 1.13: Additional revenue realized because of DGOV

Financial Year	Amount realized Cr. ₹	% increase/decrease over last year	%age of Customs receipts
FY 09	727		0.73
FY 10	790	8.67	0.95
FY 11	930	17.72	0.68
FY 12	1096	17.85	0.73
FY 13	1411	28.74	0.85

Source: CBEC, Ministry of Finance

Ministry further stated (March 2014) that the additional revenue realized was due to use of various valuation tools such as National Import database (NIDB), valuation alerts and Guidelines and International prices as published by DGOV. The effectiveness of these tools could not be judged from the amount of additional revenue because values once enhanced or uploaded by Customs, are subsequently suo motu filed as declared values by the importers.

1.21 Trade remedial duties due to Safeguards, Antidumping and Anti Subsidy measures

The Director General of Safeguards is required under Customs Tariff (Identification and Assessment of Safeguard Duty) Rules, 1997 to investigate the existence of 'serious injury' or 'threat of serious injury' to the domestic industry as a result of increased imports of an article into India and submit his findings to the Central Government. The Directorate General of Safeguards has carried out 19 investigations during FY 11 to FY 13 as shown in Table 1.14 below. Safeguard measures could also take the form of quantitative restrictions.

Table 1.14 Investigation done by the Director General of Safeguards

	FY11	FY12	FY13
No. of cases in hand	2	2	4
No. of active SGs	3	3	5
Name of Commodities involved (*)	(a)N1, 3-dimethyl butyl N' Phenylenediamine (b) Aluminium flat rolled products and foil 7606 & 7607 (Review)	(a)Phthalic Anhydride (b)Carbon black	(a) Dioctyl Phthalate (DOP) (b) Electrical insulators (c) Hot rolled flat products or stainless steel 304 grade (d) Phthalic anhydride (Review)

*Source: Directorate General of Safeguards, Customs and Central Excise

1.22 Anti Dumping Duties

Director General of Antidumping initiated the first anti-dumping investigation in 1992. During this period the DGAD received large number of applications for initiating anti-dumping investigations. During FY 11 to FY 13 anti-dumping investigations were initiated in 97 cases and 108 cases were finalized involving 31 countries.

The countries prominently figuring in anti-dumping investigations are China PR, EU, Chinese Taipei, Korea RP, Japan, USA, Singapore, Indonesia, Thailand, Russia, France, South Africa etc.

The major product categories on which anti-dumping duty was levied are PVC paste Resin, chemicals & petrochemicals, pharmaceuticals, fibres /yarns, steel and other metals and consumer goods. The duties collected due to the remedial measures are nominal compared to total Customs duty. The duties form an insignificant portion (0.020 percent in 2013) of the total customs duties. However, CAG's Compliance Audit reports have reported some ways adopted by importers to evade the Anti dumping duties.

1.23 Tax Evasion, Investigation and Seizures

There has been an increasing trend in duty evasion cases.

There has been an increasing trend in evasion of cases both in terms of numbers and the amount during the last 5 years (FY 09 to FY 13) as shown in the **Appendix 3**. The duty evasion cases go up from 340 to 709 and value from ₹ 1,529 crore to ₹ 4,743 crore during the same period. Interestingly, this was also the period when various ICT solutions were in use and Self assessment, RMS based PCA and intelligence was embarked on with a gradual shift towards OSPCA.

DRI unit (CBEC) detected 2548 cases of tax evasion involving ₹ 9553.45 crore during the FY 09 to FY 13. The products involved were mainly second hand machinery, electronic goods, memory cards, helicopters, luxury cars, mobile phone and its batteries, vehicles and their parts, rough diamonds and jewellery.

1.24 Increasing Trend in Seizures of Specified Commodities

Scrutiny of seizures of Specified Commodities during FY 09 to FY 13 (**Appendix 4**) reveals that there was an increasing trend in seizures of specified commodities in terms of All India level.

It was seen that total amount of seizures at All India level have gone up from ₹ 1556.80 crore to ₹ 1619.97 crore. Maximum rise was in Narcotic Drugs, Machinery/Parts, Fabrics/Silk Yarn etc., Electronic Items, and Vehicles/Vessel/Air Crafts etc. This was despite tariff rationalization, increasing trade openness, facilitation and surveillance.

1.25 Cost of Collection for the FY 09 to FY 12

Despite automation and extensive use of ICT, the cost of collection has not come down appreciably

Notwithstanding automation and extensive use of ICT, cost of collection continues to show a rising trend. Expressed in terms of percentage of receipts, cost of collection was in the range of 1 to 2 percent during FY 09 to FY 13 (Table 1.15). CBEC did not provide to audit the methodology to calculate the Reserve fund and Deposit Account expenditure in the overall cost of collection.

Table: 1.15: Cost of Collection during FY 09 TO FY 12

Cr.₹

Year	Expdtr. on Revenue, 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 % age of customs receipts
FY 09	234.56	989.28	11.65	1235.49	99879	1.24
FY 10	304.38	1217.85	9.83	1532.06	83324	1.84
FY 11	292.89	1420.71	4.76	1718.36	135813	1.27
FY 12	306.05	1577.31	5.02	1888.38	149876	1.26
FY 13	315.09	1653.28	10.49	1978.93	165346	1.20

Source: Figures from Finance Accounts

1.26 Accounting based Internal Audit irregularities.

The internal audit report does not provide a control based assurance in line with its risk assessment.

Internal audit done by the Principal Chief Controller of Accounts (Pr.CCA), CBEC is aimed at audit of different payment and accounting functions of CBEC. Though internal audit is an integral part of the internal control system, the internal audit reports of Pr.CCA indicated pendency to the tune of 83 internal audit paras (Pr.CCA letter DO No. IA/NZ/HQ/CAG INFO/2013-14/157 dated 1 October 2013).

Pr.CCA audit comments comprised the following irregularities apart from points of establishment audit till FY 13:

a. Non-reconciliation of revenue receipts; less credit ₹ 2.86 crore crore, Excess credit ₹ 2.62 lakh crore.

b. Non-recovery of arrears of central excise and customs, revenue (confirmed demands); ₹ 0.19 lakh crore.

c. Non-disposal and delay in disposal of confiscated goods of ₹ 117.67 crore.

g. Non recovery of dues from Govt. Department/State Government Bodies/Private parties/ Autonomous bodies; ₹ 0.11 lakh crore.

1.27 Effectiveness of Technical audit by DG (Audit), CBEC

Custom department has been computerized by introducing ICES in 1994 which has been further upgraded to ICES 1.5 version (2009). It has also introduced Risk Management System (RMS) by flagging various risk factors on valuation, classification, notification etc. in the system. Computerization seeks to improve the assessment process of imported goods as well as exported goods and minimizes irregularities of incorrect calculation of duty, application of tariff rates, application of exemption notifications, mis-classification of goods in general.

Departmental audit is an important instrument of internal control which detects non compliance and inefficiencies and initiates remedial action on shortcomings. To ensure effective inspection system CBEC issued instructions on the subject recently. Table 1.16 below gives quantitative achievements in this area during FY 11 to FY 13. The ratio of percentage of duty detected/recovered to Customs Receipts was insignificant.

Table 1.16: Departmental audit during FY 05 to FY 10

Cr.₹

FY	Audits conducted	Duty detected	Duty recovered	Duty detected to Customs Receipts %	Duty recovered to Detected %	Duty recovered to Customs Receipts %
FY11	323399	548.48	447.20	0.004	0.82	0.003
FY12	525406	438.73	459.04	0.223	104.62	0.003
FY 13	446911	1824.13	741057.61	0.10	0.58	0.006

Source: Directorate General of Audit, Customs & Central Excise

1.28 Audit effort and Customs Audit Products

Compliance Audit Report

Compliance audit was managed as per the Comptroller and Auditor General's (CAG) Audit Quality Management Framework, 2009 employing professional auditing standards of the Auditing Standards, 2nd Edition, 2002.

1.29 Sources of information and the process of consultation

Data from the Union Finance Account, Annual Import/Export Data of Customs (CBEC), Single Sign On (SSO id) based access of ICES 1.5 was used along with examination of basic Records/ documents in DoR, CBEC, Department of Commerce and their field formations. MIS, MTRs of CBEC along with other stake holder reports were used. We have nine field offices headed by Director Generals (DGs)/ Principal Directors (PDs) of audit, who managed audit of 532 units in FY 13 and issued 14020 Audit observations.

Chapter one of the current Compliance audit report analyses the customs revenue framework, its fiscal size and significance, relative to the gross Union Revenue aggregates. The resultant issue area has been audited and presented in Chapter two, which reports the observations on scheme based duty exemption or remission, while Chapter three highlights the cases of incorrect application of general exemption, Chapter four reports cases of incorrect assessment and includes the Theme based audit on 'Refund of Customs duty', Chapter five highlights the cases of misclassification of goods, Chapter six is on the management of Narcotic substances and Chapter seven includes reports on Theme based audit on 'Disposal of seized and confiscated goods', 'Import General manifest and Export General manifest' and 'Public and Private bonded warehouses'. The current report has 55 paragraphs of ₹ 1792.73 crore. We had issued another 84 paragraphs of ₹ 39.67 crore for the audit conducted upto March 2013 (**Annexure-I**). There were generally six kinds of observation: Incorrect classification; Incorrect application of exemption notification; Condition of notification not fulfilled; Incorrect exemption due to miscalculation; Scheme based exemption and Incorrect assessment of customs duties. The department/Ministry has already taken rectificatory action involving money value of ₹ 39.67 crore in case of 84 paragraphs in the form of issue of show cause notices, adjudication of show cause notices and reported recovery in some cases.

In addition, this year audit has commented on themes such as Disposal of seized and confiscated goods, Refund of Customs duty, Import General Manifest (IGM)/Export General Manifest (EGM), Advance Authorisation, Public/Private Bonded warehouses and Promotional measures under Foreign Trade Policy (Chapter 3).

Remedial action taken on the compliance audit report and their status as of March 2013 is given in Table 1.17.

Table No 1.17: Remedial action taken on the compliance audit report

Report No.	CBEC, Customs		DoC	
	ATNs pending	ATNs not received	ATNs pending	ATNs not received
CA 10 of 1998 (CUS)	1	-	-	-
CA 7 of 2006 (Cus,CX,ST)		-	2	-
CA 7 of 2008 (Cus,CX,ST)		-	1	-
CA 20 of 2009-10 (Cus, CX, ST)		-	4	-
CA 14 of 2009-10		-	2	-
CA 24 of 2010-11		-	2	-
CA 31 of 2011-12	2		3	4
CA 14 of 2013		15	6	2
Total	**3**	**15**	**21**	**6**

Source: CBEC, Ministry of Finance

1.30 Performance Audit Report

Performance audit with the aim to highlight the outcome of the schemes on certain specific procedures revealed that the outcome was difficult to gauge because of a lack of specific performance indicator and success measurements. 2004-05 onwards the reports started giving recommendations. This year we have covered Performance audit on Duty Entitlement Pass Book Scheme; Indian Customs Electronic Data Interchange system (ICES) and Special Economic Zones. Generally, a period of five years is taken for performance audit of the Scheme employing professional auditing standards and Performance Auditing Guidelines, 2004.

1.31 Public Accounts Committee (PAC):

PAC has taken up three reviews (Part or complete) i.e. Duty Drawback Scheme; Deemed Export and reimbursement of Central Sales Tax (CST) to STP/EHTP units for discussion. PAC's advance questionnaires have been broad based at the levels of tax policy, administration and implementation. It has also observed lack of inter-ministerial coordination, scheme outcome as well as inadequate monitoring.

1.32 Response to CAG's audit, revenue Impact/follow-up of Audit Reports

In the last five audit reports (including current year's report) we had included 635 audit paragraphs (Table 1.18) involving ₹ 2161.12 crore. Of these, the Government had accepted audit observations in 617 audit paragraphs involving ₹ 290.80 crore and had recovered ₹ 110.96 crore.

Table 1.18: Follow up of Audit Reports

Cr. ₹

Year	Paragraphs included		Paragraphs accepted						Recoveries effected					
			Pre printing		Post printing		Total		Pre printing		Post printing		Total	
	No.	Amt	No.	Amt	No.	Amt	No.	Amt	No.	Amt	No.	Amt	No.	Amt
FY 09	133	56.20	101	33.75	45	14.72	146	48.47	68	16.54	33	5.760	101	22.30
FY 10	124	79.62	102	32.71	16	4.10	118	36.81	63	18.01	3	0.37	66	18.38
FY 11	118	130.61	102	98.68	29	17.81	131	116.49	56	17.81	3	4.07	59	21.88
FY 12	121	62.28	108	47.67	14	11.19	122	58.86	79	29.66	9	1.31	88	30.97
FY13	139	1832.41	100	65.78	Not Applicable		100	65.78	63	17.43	Not Applicable		63	17.43
Total	**635**	**2161.12**	**513**	**278.59**	**104**	**47.82**	**617**	**290.80**	**329**	**99.45**	**48**	**11.51**	**377**	**110.96**

Source: CAG Audit reports