

## 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, 1975 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 Importer Exporter Code (IEC) by the Directorate General of Foreign Trade (DGFT). As on March 2019 there are 3,00,402 active IECs<sup>1</sup>. During FY 19, exports worth ₹23.08 lakh crore (1,33,60,422 transactions) and imports worth ₹35.95 lakh crore worth of imports (1,21,88,592 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 20 Zones headed by Chief Commissioners across the country.

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

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<sup>1</sup>IEC is issued by DGFT, Delhi to every importer/Exporter.

**1.3.4** The FTP is implemented through the RAs who are responsible for providing IECs and granting licenses under various schemes of export promotion. During FY 19, there were 38 RAs across India.

#### **1.4. Customs receipts**

**1.4.1** Customs receipts, before the introduction of GST, comprised of the BCD, CVD and SAD. All imports are also subjected to Education cess. In addition, Anti-dumping duty and Safeguard duty are leviable wherever 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 IGST. The IGST 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 15 to FY 19 are given in Table 1.1 below:

**Table 1.1: Budget and Revised estimates, Actual receipts**

Year	Budget estimates ₹ in Cr.	Revised estimates ₹ in Cr.	Actual receipts ₹ in Cr.	Diff. between actual and BE	Per cent variation between actual and BE	Per cent variation between actual and RE
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
FY 19	1,12,500	1,30,038	1,17,813	(+) 5,313	(+)4.72	(-)9.40

Source: Union Budget and Finance Accounts for respective years.

**1.5.3** The variation between RE and actual receipts ranged between (-)9.40 per cent to 3.85 per cent during FY 15 to FY 19. Variation between BE and Actuals was in the range of (-) 47.33 per cent to 4.72 per cent during the same period.

**1.5.4** Actual Customs receipts during FY19 were more than BE by 4.72 *per cent* (by ₹5,313 crore), while in comparison to RE they were short by 9.4 *per cent* (by ₹12,225 crore) during the same period. DoR stated (March 2020) that BE and RE for a financial year were fixed while taking various economic factors into account and the final outcome of these factors for the whole year was not known in advance.

## 1.6 Growth of Customs receipts

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

**Table 1.2 (a): Growth of Customs receipts**

Year	Customs receipts ₹ in Cr.	Year on year growth <i>per cent</i>	GDP ₹ in Cr.	Customs receipts as % of GDP	Gross Tax Revenue (GTR) ₹ in Cr.	Customs receipts as % of GTR	Gross Indirect taxes ₹ in Cr.	Customs receipts as % of Indirect taxes
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
FY 19	1,17,813	(-)09	1,90,10,164	0.62	19,68,456	5.99	8,43,177	13.97

Source: Finance Accounts for respective years

**1.6.2** Customs receipts growth rate, on Year on Year (YoY) basis were in the range of 9 to 12 *per cent* during the years from FY 15 to FY 17, but showed negative trend in FY 18 to FY 19 compared to the previous year. **Customs receipts in FY 18 and FY 19 are not comparable with earlier year as after introduction of GST, Customs receipts comprise of only BCD excluding CVD and SAD, which used to be part of Customs receipts earlier have been subsumed into IGST.**

**1.6.3** During FY 19 the percentage of Customs receipts to GDP was 0.62 *per cent* compared to 0.76 *per cent* in previous year FY 18. Customs receipts as percentage of GTR had declined to 5.99 *per cent* in FY 19 as compared to 15.10 *per cent* in FY 15. The decrease in percentage of Customs receipts as compared to GDP/GTR during FY 18 and FY 19 was mainly because of subsuming of CVD and SAD into IGST. CVD and SAD together accounted for 65 to 67 *per cent* of Customs receipts during FY 15 to FY 17.

Customs receipts as percentage of total Indirect taxes have progressively declined from 34 *per cent* in FY 15 to 14 *per cent* in FY 19.

**1.6.4** During FY 19, the Customs receipts to GDP ratio was less than one *per cent* (0.62 *per cent*) while Customs receipts as percentage of GTR were 6 *per cent*. Customs receipts as a percentage of indirect taxes were 14 *per cent*.

**1.6.5** The share of CVD and SAD which were also a part of Customs receipts before introduction of GST from July 2017 is shown in the table 1.2(b) below.

**Table 1.2 (b): Share of CVD and SAD in Customs receipts during FY 15 to FY 19**

Year	Customs receipts (₹ in Cr.)	CVD (₹ in Cr.)	SAD (₹ in Cr.)	Total of (CVD+SAD) (₹ in Cr.)	Customs receipts excluding (CVD+SAD) (₹ in Cr.)	YoY growth of Customs receipts excluding (CVD+SAD)	(CVD+SAD) as percentage of Customs receipt
FY 15	1,88,016	93,245	29,298	1,22,543	65,473		65.18
FY16	2,10,338	1,06,250	30,033	1,36,283	74,055	13	64.79
FY17	2,25,370	1,11,982	39,944	1,51,926	73,444	(-)0.8	67.41
FY 18	1,29,030	33,489	9,603	43,092	85,938	17	33.40
FY 19	1,17,813	1,835	78	1,913	1,15,900	35	1.62

Source: Budgets & Finance Accounts for respective years and information given by MoF

After introduction of GST in July 2017, the percentage of CVD plus SAD was 1.62 *per cent* in FY 19 as these duties have been subsumed into GST except on few commodities (Motor spirit, Diesel and alcohol).

Considering Customs receipts excluding (CVD+SAD), there was increase from ₹65,473 crore in FY 15 to ₹1,15,900 crore during FY 19. YoY growth of Customs receipts excluding (CVD+SAD) was 35 *per cent* in FY 19 compared to FY 18.

## 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 15 to FY 19.

**Table 1.3: India's Import and Export**

Year	Imports ₹ in Cr.	% growth over previous year	Exports ₹ in Cr.	% growth over previous year	Trade Imbalance ₹ in Cr.
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
FY 19	35,94,675	19.78	23,07,726	17.95	(-)12,86,949

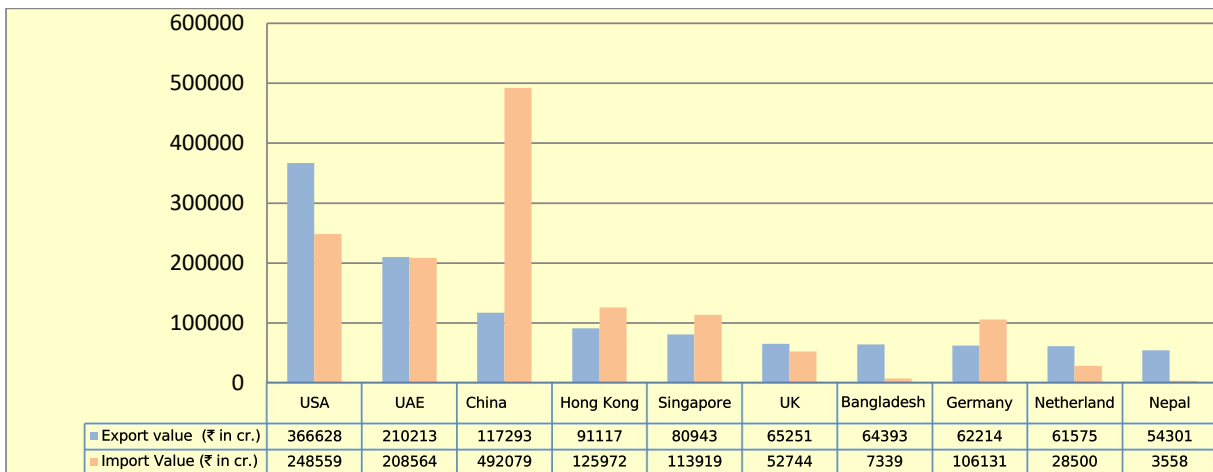
Source: EXIM Data, Ministry of Commerce & Industry

**1.7.2** India's imports increased in value to ₹35.95 lakh crore during FY 19 from ₹30.01 lakh crore in FY 18, and the exports also increased to ₹23.08 lakh crore in FY 19 from ₹19.56 lakh crore in FY 18.

YoY growth rate of imports increased during FY 17 and FY 18 after a negative growth of (-) 9 per cent during FY 16. The growth rate in exports also increased from (-) 9.5 per cent in FY 16 to 17.95 per cent in FY 19. The imports grew by 19.78 per cent in FY 19 over FY 18, while exports grew by 17.95 per cent during the same period.

**1.7.3** During FY 19 India’s top trading partners in terms of value of imports and exports were USA, UAE, China, Hong Kong, Singapore, UK, Bangladesh, Germany, Netherland and Nepal. The details of imports and exports from top ten countries during FY 19 are depicted in chart 1 below:

**Chart 1 : Export vis-a-vis Import from Top 10 Countries during FY 19**



Source: EXIM Data, Ministry of Commerce & Industry

## 1.8 Share of top five commodities in imports and exports during FY 19

**1.8.1** Growth of imports in FY 19 was led by five major commodity groups, namely,

- (i) Mineral fuels and products of their Distillation (Chapter 27 of Customs Tariff)
- (ii) Natural or Cultured Pearls, Precious or semi-precious stones, Gold and articles thereof (Chapter 71 of Customs Tariff)
- (iii) Electrical machinery and equipment and parts (Chapter 85 of Customs Tariff)
- (iv) Machinery and appliances and parts (Chapter 84 of Customs Tariff) and
- (v) Organic chemicals (Chapter 29 of Customs Tariff)

These commodities accounted for 68 per cent share of the total imports made during FY 19 as depicted in Table 1.4.

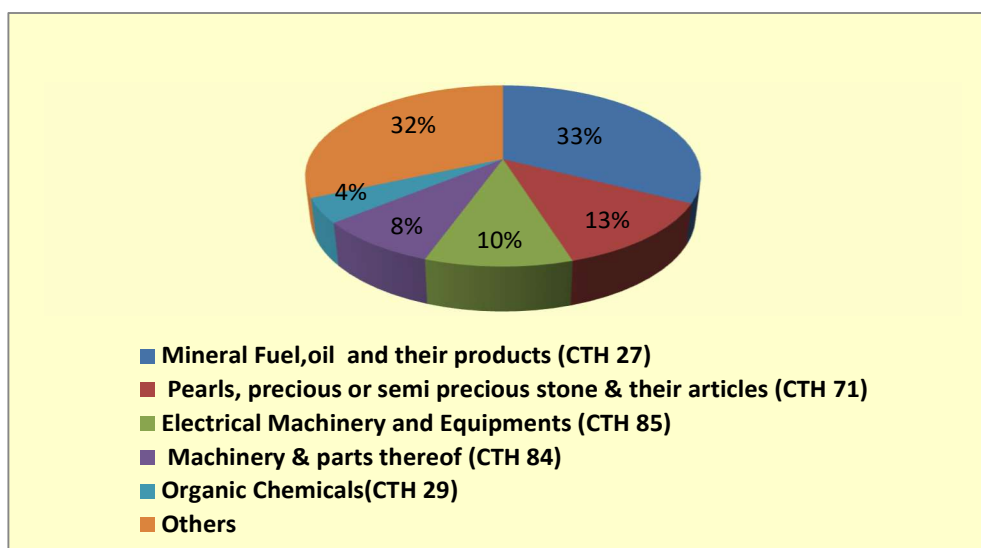
**Table 1.4: Share of top five commodities in imports during FY 19**

Sl. No.	Commodity	Import (₹in cr.)	% to total imports
1	Mineral Fuel, oil and their products (CTH 27)	11,74,715	33
2	Pearls, precious or semiprecious stone & their articles (CTH 71)	4,51,505	13
3	Electrical Machinery and Equipments (CTH 85)	3,64,152	10
4	Machinery & parts thereof (CTH 84)	3,06,368	8
5	Organic Chemicals (CTH 29)	1,56,552	4
6	Others	11,41,383	32
	Total	35,94,675	

Source: EXIM Data, Ministry of Commerce & Industry

The share of top five commodities in imports during FY 19 is pictorially depicted in chart 2 below.

**Chart 2: Share of top five commodities in imports during FY 19**



**1.8.2** Top five commodities exported during FY 19 were:

- (i) Mineral fuels and products of their Distillation (Chapter 27 of Customs tariff)
- (ii) Natural or Cultured Pearls, Precious or semi-precious stones, Gold and articles thereof (Chapter 71 of Customs tariff)
- (iii) Machinery and appliances and parts thereof (Chapter 84 of Customs tariff)
- (iv) Organic chemicals (Chapter 29 of Customs tariff) and
- (v) Vehicles and parts and accessories thereof (Chapter 87 of Customs tariff) in their respective order.

The share of the five major commodities in exports during FY 19 was 44 per cent of the total exports made as depicted in Table 1.5 below.

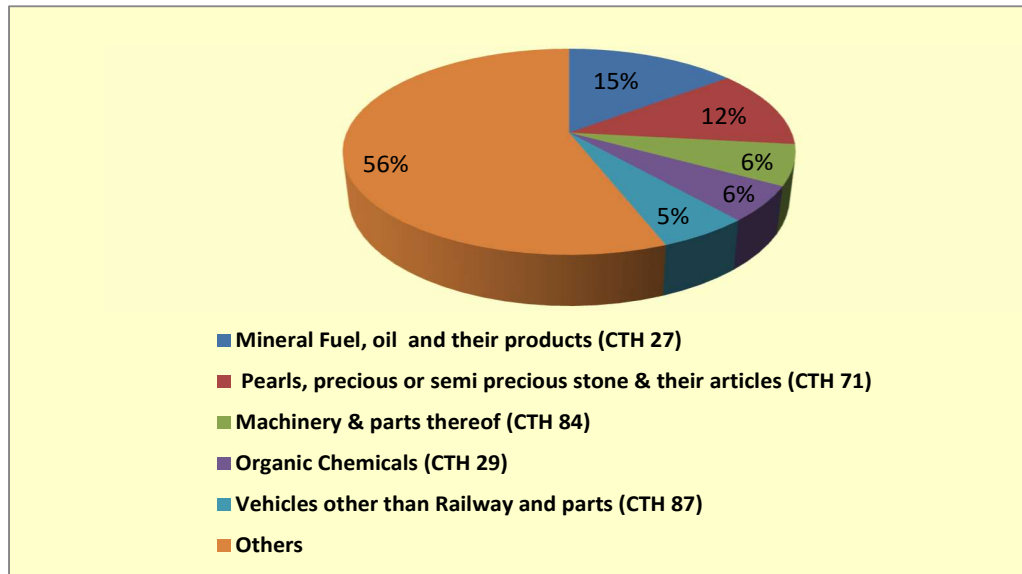
**Table 1.5: Share of top five commodities in exports during FY 19**

Sl. No.	Commodity	Export (₹ in cr.)	% to total exports
1	Mineral Fuel, oil and their products (CTH 27)	3,35,474	15
2	Pearls, precious or semiprecious stone & their articles (CTH 71)	2,82,794	12
3	Machinery & parts thereof (CTH 84)	1,46,652	6
4	Organic Chemicals (CTH 29)	1,27,567	6
5	Vehicles other than Railway and parts (CTH 87)	1,26,533	5
6	Others	12,88,706	56
	Total	23,07,726	

Source: EXIM Data, Ministry of Commerce & Industry

The share of top five commodities in exports during FY 19 is pictorially depicted in chart 3.

**Chart 3: Share of top five commodities in exports during FY 19**



### 1.9 Performance of Special Economic Zones

The SEZ Act, 2005, supported by SEZ Rules, came into effect on 10 February, 2006, providing for simplification of procedures and for single window clearance on matters relating to central as well as State Governments. The main objectives of the SEZ Act are:

- generation of additional economic activity
- promotion of exports of goods and services

- promotion of investment from domestic and foreign sources
- creation of employment opportunities
- development of infrastructure facilities

While 416 SEZs were formally approved, only 351 were notified as on 1 April 2019, of which only 232 SEZs were operational (**Annexure 1**) i.e. only 55.77 *per cent* of the approved SEZs.

The three parameters of SEZ performance (i) Export performance, (ii) Investment and (iii) Employment for the period FY 16 to FY 19 are given in **Table 1.6** below.

**Table 1.6: Performance of SEZs**

	FY 16	FY 17	FY 18	FY 19
<b>Export performance ( ₹ in crore )</b>	4,67,337	5,23,637 (12%)*	5,81,033 (11%)*	7,01,179 (21%)*
<b>Investment ( ₹ in crore )</b>	3,76,494	4,33,142 (15%)	4,92,312 (14%)	5,07,644 (3%)
<b>Employment (in person)</b>	15,91,381	17,78,851 (12%)	19,96,610 (12%)	20,61,055 (3%)

Source: Ministry of Commerce & Industry

\*Figures in bracket indicate YoY growth

Exports from SEZ, which stood at ₹7.01 lakh crore in FY 19, had overall growth of 50 *per cent* (₹2,33,842 Cr.) over exports made in FY16. The exports growth percentage was 21 *per cent* in FY 19 over FY 18 with exports of ₹5.81 lakh crore. The YoY growth in exports had increased from one *per cent* in FY 16 to 21 *per cent* in FY 19 as compared to previous years (**Table 1.6 and Annexure 1**).

A total of ₹5.07 lakh crore has been invested in SEZs during FY 19 which resulted in generation of employment for 20.61 lakh persons. The investment had registered a growth of 35 *per cent* in FY 19 over investment of ₹3.77 lakh crore made in FY 16. During the same period employment generated had registered growth of 30 *per cent* (**Table 1.6 and Annexure 1**).

#### **1.10. Cost of Collection of Customs receipts during FY 15 to FY 19**

**1.10.1** 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.

**1.10.2** The cost of collection of Customs receipts for FY 19 was 3.75 *per cent* of Customs receipts. The cost of collection of Customs receipts for the period from FY 15 to FY 19 is given in Table 1.7.



**Table 1.7: Cost of Collection during FY 15 to FY 19**

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 Expenditure	Customs receipts	Cost of collection as percentage of Customs receipts
	₹ in Cr.	₹ in Cr.	₹ in Cr.	₹ in Cr.	₹ in Cr.	
1	2	3	4	5	6	7
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	3,262	39	3,941	1,29,030	3.05
FY 19	743	3,667	9	4,419	1,17,813	3.75

Source: Finance Accounts of the Union Government for respective years

**1.10.3** Expressed in terms of percentage of Customs receipts, cost of collection ranged between 1.33 *per cent* (FY 15) to 3.75 *per cent* (FY19). On implementation of GST, IGST on import and export is levied and collected by Customs department but the IGST receipts are booked under GST Accounting Head.

### 1.11 Arrears of Customs duties

**1.11.1** 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 Customs Commissionerate for the purpose of making recovery of Government dues. Every year recovery targets are fixed for each Commissionerate.

**1.11.2** The arrears of Customs duty are duties which have been raised by the Department but have not been recovered due to various reasons like pendency of adjudication, disputed claims, and provisional assessments. The Customs arrears amounted to ₹35,827 crore as on 31 March 2019.

**1.11.3** The Customs revenue arrears for FY 16 to FY 19 are depicted in the table 1.8:

**Table 1.8: Arrears of Customs duties**

Year	Arrear of Customs duties under dispute ₹ in Cr.	Arrear of undisputed Customs duties ₹ in Cr.	Total ₹ in Cr.	Percentage of disputed arrears to total arrears
FY16	12,300	12,322	24,622	49.95
FY17	21,780	4,700	26,480	82.25
FY18	18,836	5,849	24,685	76.31
FY19	27,972	7,855	35,827	78.08

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

**1.11.4** The arrears of Customs duties have risen steadily during FY 16 to FY 19 except in the FY 18. The total arrear of Customs revenue pending as on March 2019 (₹35,827 crore) had increased by 45.14 *per cent* in comparison to pendency as on March 2018 (₹24,685 crore) indicating that the Department is not acting proactively for recovery of the arrears.

The overall arrears in Customs duties have grown by 46 *per cent* in FY 19 compared to FY 16.

**1.11.5** Amount of arrears under dispute as a proportion to total arrears rose from 50 *per cent* in FY 16 to 78 *per cent* for the FY 19 and stood at ₹35,827 crore. There was 34 *per cent* increase in undisputed arrears in FY 19 from previous year FY 18.

Details of arrears of Customs duties realised during the FY 19 have been sought from the CBIC, response to which was awaited (July 2020).

**1.11.6** Out of total 23 Zones (11 Customs Commissionerates and 12 combined Commissionerates (Customs and GST), 10 zones accounted for 87 *per cent* (₹31,084 crore) of total arrears pending (₹35,827 crore) during FY 19 as shown in Table 1.9 below.

**Table 1.9: Zone wise Arrears of Customs revenue as on 31 March 2019**

Sl. No.	CC Zones	Amount under Dispute	Amount Undisputed	Amount pending as on 31.03.19
		₹ in Cr	₹ in Cr	₹ in Cr
1	Mumbai II Cus	9,708	1,571	1,1279
2	Ahmedabad Cus	4,248	720	4,968
3	Delhi Cus	1,828	1,336	3,164
4	Mumbai III Cus	1,986	128	2,114
5	Bhopal CE & GST	950	1,109	2,059
6	Bangalore Cus	1,769	126	1,895
7	Kolkata Cus	1,049	513	1,562
8	Chennai Cus	1,127	424	1,551
9	Mumbai-I Cus	1,239	143	1,382
10	Visakhapatnam CE & GST	998	112	1,110
	<b>Sub Total</b>	<b>24,902</b>	<b>6,182</b>	<b>31,084</b>
11	<b>Others</b>	<b>3,070</b>	<b>1,673</b>	<b>4,743</b>
	<b>Grand total</b>	<b>27,972</b>	<b>7,855</b>	<b>35,827</b>

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

**1.11.7** Chief Commissionerates of Customs, Mumbai-II had the highest quantum of arrears of Customs duty in FY 19, followed by Ahmedabad, Delhi, Mumbai-III and Bhopal Customs/CE-GST Zones in that order.

**1.11.8** Undisputed arrears (₹7,855 crore) pending as on 31 March 2019 were 22 per cent of total arrears (₹35,827 crore) indicating that the Department is not acting proactively for recovery of the arrears which are undisputed.

**1.11.9** Age analysis of undisputed arrears revealed that out of total ₹7,855 crore, ₹2,494 crore (32%) were lying unrecovered for more than five years. An amount of ₹1,663 crore was pending for recovery for more than ten years indicating need for strengthening department's recovery mechanism.

**Table 1.10: Age wise Arrears of Customs revenue for FY 14 to FY 19**

Year	Amount under dispute (*)				Amount not under dispute (*)				Grand total (col.5+9)
	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)	
1	2	3	4	5	6	7	8	9	10
FY 14	9,703	1,890	429	12,022	3,321	1,818	825	5,964	17,986
FY 15	12,430	1,813	355	14,597	2,951	2,082	1,178	6,211	20,808
FY 16	8,681	2,494	1,125	12,300	5,162	4,714	2,446	12,322	24,622
FY 17	17,919	2,716	1,145	21,780	2,538	1,245	917	4,700	26,480
FY 18	15,554	2,279	1,005	18,836	3,931	980	938	5,849	24,685
FY 19	24,670	2,373	929	27,972	5,361	831	1,663	7,855	35,827

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

## 1.12 Internal Audit

**1.12.1** The internal audit of CBIC and its field formations comprises of technical audits conducted by Directorate General of Audit {DG (Audit)} 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 Additional 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.

**1.12.2** The details of technical category of internal audits planned and conducted by DG (Audit) for the year FY 19 were not provided by CBIC.

**1.12.3** Pr. CCA conducts internal audit of payments and accounts of CBIC and its field formations. According to information given by the CBIC of the audit comments raised by Pr. CCA during 2018-19, 137 observations

amounting to ₹9,040 crore<sup>2</sup> were pending as on 31 March 2019. These mainly consisted of the following irregularities:

- a) Non recovery of dues from Government Department/State Government bodies/Private parties/ Autonomous bodies; ₹7,383 crore;
- b) Blocking of government money; ₹314 crore on account of infructuous expenditure, irregular purchase/expenditure etc,

### **1.13 Tax Evasion and Seizures**

**1.13.1** According to information furnished by Directorate of Revenue Intelligence (DRI), the number of duty evasion cases moved up from 407 in FY 15 to 752 in FY 19 while the value increased from ₹2,926 crore to ₹6,228 crore during the same period (**Annexure 2**). However, details of recoveries made during FY 19 in cases detected were not provided.

**1.13.2** Major commodities involved in evasion cases were Gold, Foreign and Indian currency, Narcotics, Diamonds and precious stones, Electronic items (including Computer parts), Textiles and watches.

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<sup>2</sup> Pr. CCANo. IA /NZ/HQ/CAG/Information/2017-18/366 dated 18 February 2020