



HSN - Classification



M. S. REDDY, IRS
Special Commissioner

GST - Application of HS Code

Explanation appended to notification 1/2017 and 2/2017-central tax(rate) dated 28.06.2017

“(iii) “Tariff item”, “sub-heading” “heading” and “Chapter” shall mean respectively a tariff item, sub-heading, heading and chapter as specified in the First Schedule to the Customs Tariff Act, 1975 (51 of 1975).”

GST - Application of HS Code

Explanation appended to notification 1/2017 and 2/2017-central tax(rate) dated 28.06.2017

“(iv) The rules for the interpretation of the First Schedule to the Customs Tariff Act, 1975 (51 of 1975), including the Section and Chapter Notes and the General Explanatory Notes of the First Schedule shall, so far as may be, apply to the interpretation of this notification.”

GST - Use of HSN for Goods

Notification 12/2017-Central Tax dated
28.06.2017

*Turnover in the Preceding Financial
Year*

- 1. Up to 1.5 Crore - Not required*
- 2. 1.5 Cr to 5 Cr - two digits
(Chapter number)*
- 3. More than 5 Cr – 4 digits
(Heading number)*

GST- SAC - UNCPD for Services

- Service Accounting Code (SAC) or Service Code
- Chapter 99 of HSN
- Notification 11/2017-Central Tax dated 28.06.17 covers use of Service Code
- Classification under GST is based on UNCPD (United Nations Central Product Classification)

HSN

Harmonized *System of* Nomenclature

Nomenclature

Means

“a systematic naming, or enumerating of all goods found in international trade along with international rules and interpretations”

Classification

Means

“a process of arriving at a particular heading or sub heading of a commodity entering the international trade”

HSN Classification of Goods

- The Harmonized Commodity Description and Coding Systems generally referred to as "*Harmonized System of Nomenclature*" or simply "*HSN*" or "*HS*"
- It is a multipurpose international product nomenclature developed by the World Customs Organization (WCO)

Historical Background

- 1950-Brussels Tariff Nomenclature (BTN)
- 1974 - (BTN) renamed 'The Customs Cooperation Council Nomenclature' (CCCN)
- 1983 - CCCN was replaced by the Harmonized (commodity description and coding) System Nomenclature (HSN)
- 1988 - The Harmonized System adopted

Arrangement

Arranged in a **legal and logical** structure

Supported by **well defined rules**

To achieve **uniform classification** of about 5000 commodities

Each commodity is identified with **8 digit code**

Explanatory Notes – **5 volumes** by WCO

HS Structure

21 Sections



99 Chapters



1,244 Headings



5,224 Subheadings

- Chapters: 77 reserved for future use
- Chapter 99 now meant for classification of services under GST

Explanatory Notes

- The Harmonized System is governed by "The International Convention on the Harmonized Commodity Description and Coding System"
- The official interpretation of the HS is given in the Explanatory Notes (5 volumes in English) published by the WCO.
- Indian Trade Classification -ITC (HS) of Export and Import items- Published by Ministry of Commerce

Arrangement of Harmonized system

- Raw materials/ natural goods
- Un-worked products
- Semi-finished products
- Finished products

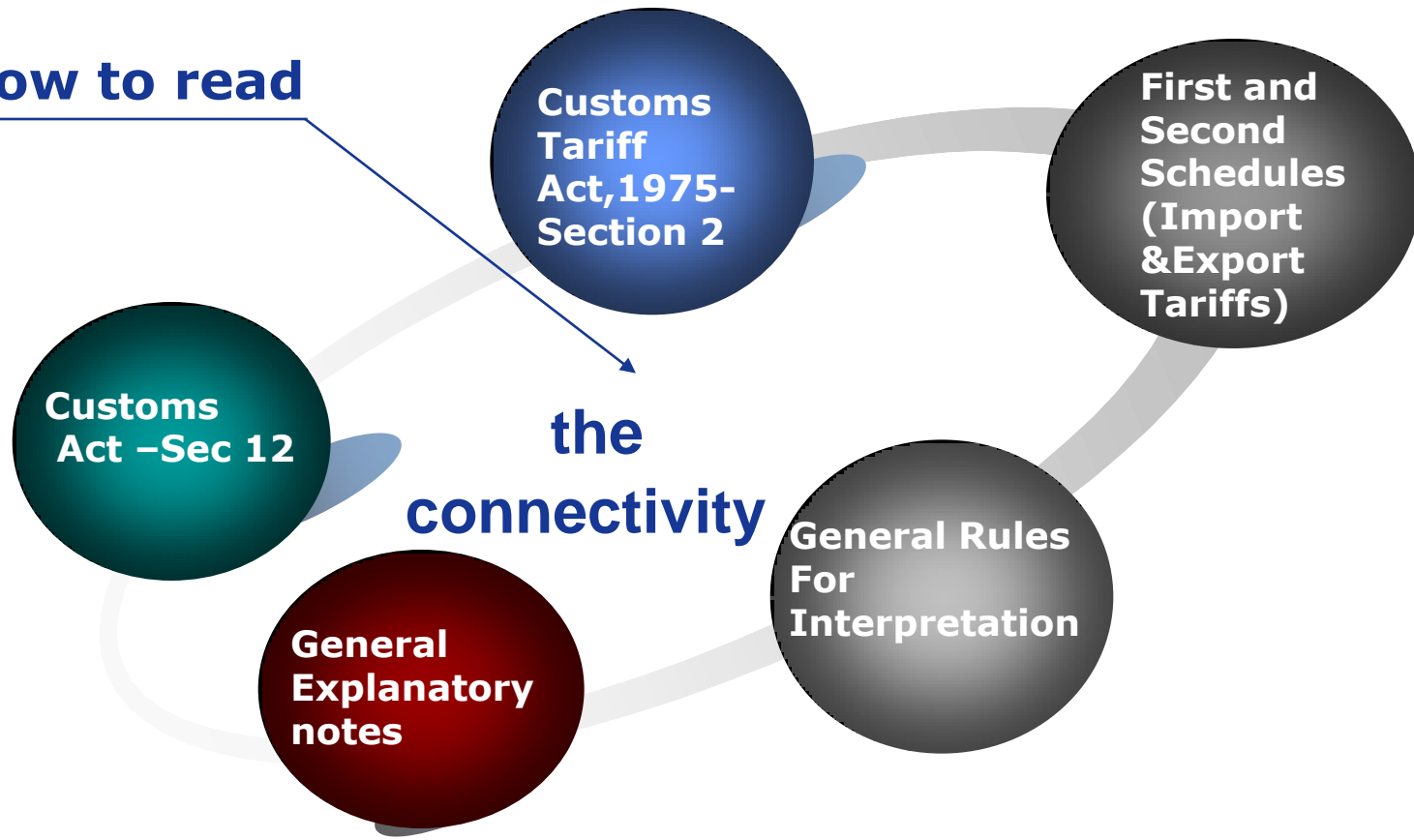
Principles of tariff classification

A commodity can be classified either by:

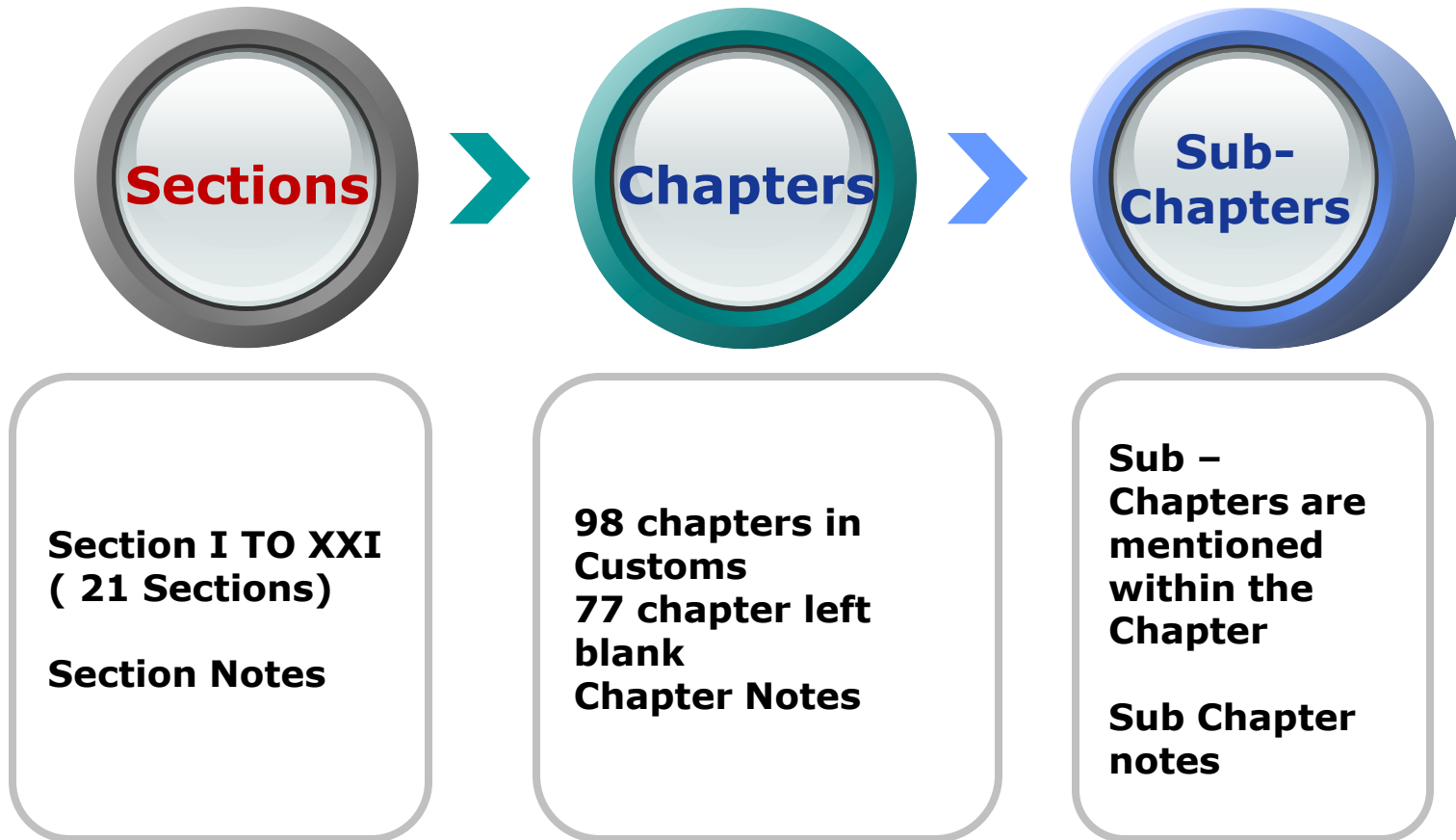
- Terms of heading
- Notes to sections, chapters or subheadings
- General interpretative rules

How to go through....

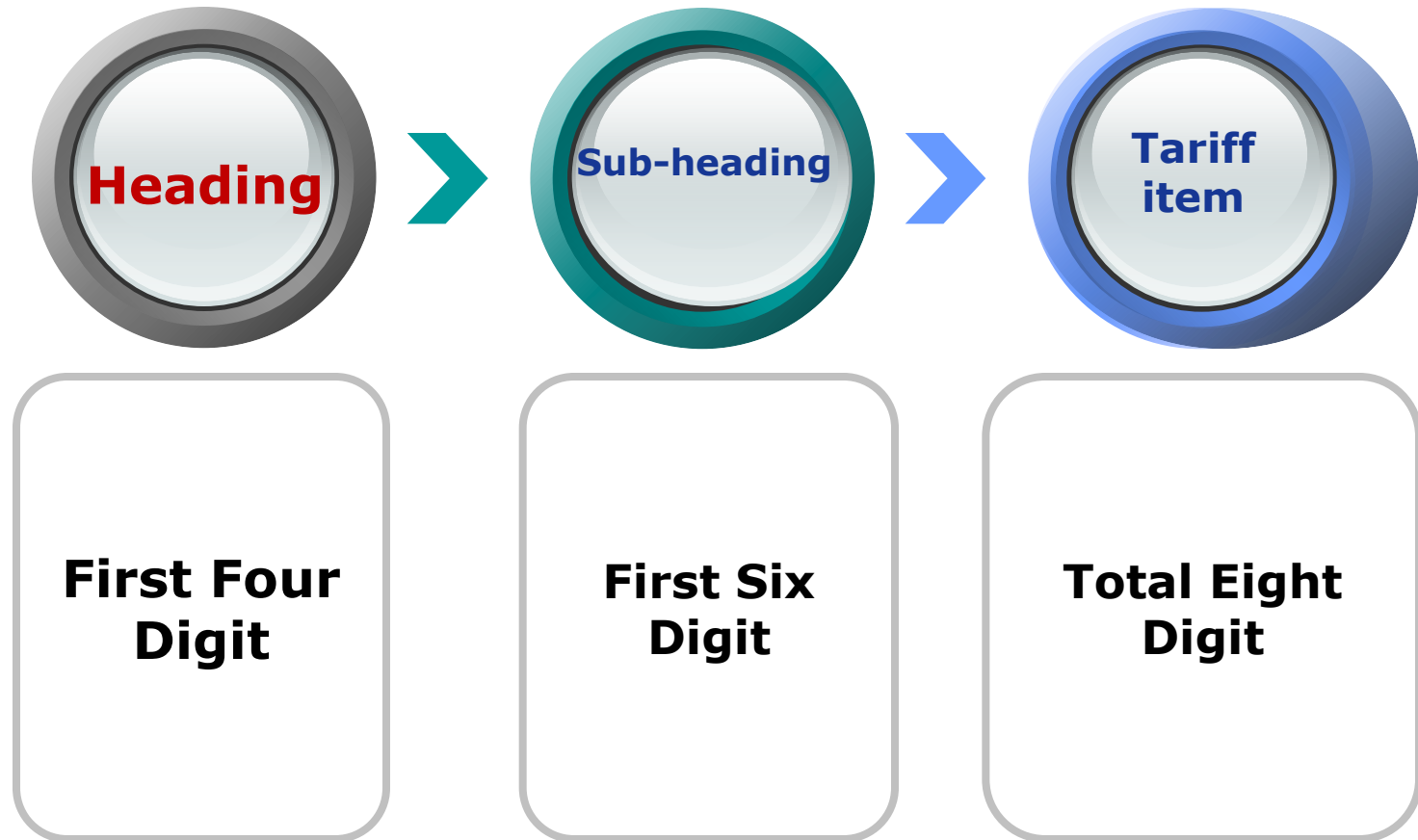
How to read



Tariff Arrangement



Customs & Central Excise Tariff Arrangement



Classification 'dashes'

'-' Single dash

'--' Double dash

'---' or '----' dashes

Example for dashes

7607 ALUMINIUM FOIL (WHETHER OR NOT PRINTED OR BACKED WITH PAPER, PAPERBOARD, PLASTICS OR SIMILAR BACKING MATERIALS) OF A THICKNESS (EXCLUDING ANY BACKING) NOT EXCEEDING 0.2 MM

- *Not backed* :

7607 11

-- *Rolled but not further worked* :

7607 11 10

--- Ordinarily used for tea chest lining

7607 11 90

--- Other

7607 19

-- *Other* :

7607 19 10

--- Ordinarily used for tea chest lining

--- *Other* :

7607 19 91

---- Plain

7607 19 92

---- Embossed

7607 19 93

---- Perforated or cut-to-shape

7607 19 94

---- Coated

7607 19 95

---- Printed

7607 19 99

---- Other

7607 20

- *Backed* :

7607 20 10

--- Ordinarily used for tea chest lining

7607 20 90

--- Other kg

Example

Eight digit code : 8504 40 30

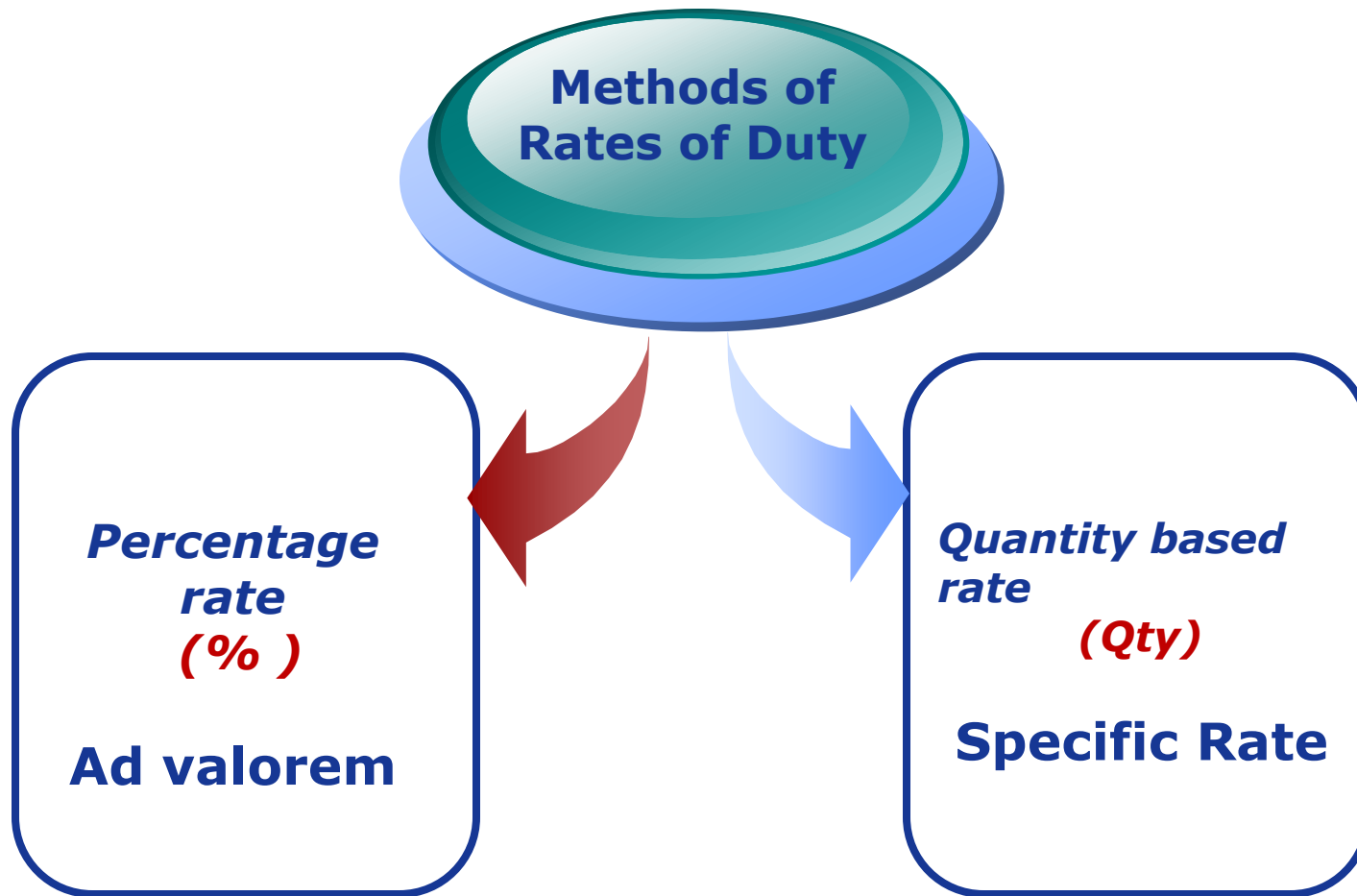
85 - Chapter

04 - Heading

40 - Sub-heading

30 - Tariff entry

Methods of Rates of Duty



General Interpretative Rule -1 (GIR 1)

Remember.....

- Headings and their legal note must first be considered when determining classification
- Rules 2-5 can only be used when Rule 1 has failed
- The rules must be used in hierarchical order

All goods must be classified according to the terms of the heading texts in the nomenclature.

AND

any relative section or chapter notes

RULE 1

For example: The following can be classified directly

- Dentist's Chairs 94.02



- Drawing chalk 96.09



- Cotton handkerchiefs 62.13



General Interpretative Rule -2(GIR 2)

Rule two can only be used if rule one has failed
'essential character' Principle

- Incomplete or Unfinished
- Unassembled or Disassembled (SKD/CKD)
- Mixtures or combinations of materials or substances

RULE 2(a)

‘Essential character’ as the finished goods

Incomplete or Unfinished

Examples:

- Motor vehicles without wheels
- wrist watch without strap



Rule 2(a)

Unassembled or disassembled



Completely Knocked Down (CKD)



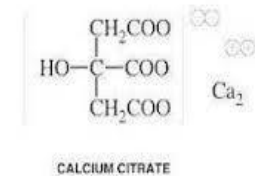
Semi Knocked Down (SKD)

A complete or finished article presented for classification in an unassembled or disassembled state is to be classified under the same heading as the assembled article.

RULE 2(b)

Mixtures or Combinations

❖ Mixtures or combinations of materials or substances



❖ Mixtures

eg: Di Calcium Citrate 2918.15

salt of citric acid (salt and citric acid)

eg: Mixed Seasonings -21.03 (Sauces)



RULE 2(b)

Another Example

COMBINATION OF ARTICLES

**Classify a wooden carpenters
steel blade? 44.17? 82.05?**



Chapter 44 Note

Chapter 82 Note 1 (a)

RULE 2(b)

COMBINATION OF ARTICLES



Chapter 44 Note 5

Heading 4417 **does not apply to tools in which the blade, working edge, working surface or other working part is formed by any of the materials specified in Note 1 to Chapter 82.**

Chapter 82 Note 1 (a)

Apart from blow lamps, portable forges, grinding wheels with frameworks, manicure or pedicure sets, and goods of heading 8209, **this Chapter covers only articles with a blade, working edge, working surface or other working part of:**

(a) **base metal;**

Classification shall be under 82.05

General Interpretative Rule -3(GIR 3)

There are three parts to this rule

Rule 3 (a), 3 (b) & 3 (c)

Order of priority

(a) Most specific description

(b) Essential character for Mixture and
Composite goods

(c) Heading which occurs last in
numerical order

General Interpretative Rule -3 (a)(GIR 3 a)

Most specific description

If goods answer to description which more clearly identifies them.

Tufted textile carpet for cars 57.03 ? 87.08 ?

Answer : 57.03



Mint Tea: 12.11? as mint or 09.02? as tea?

Answer: 09.02



General Interpretative Rule -3 (b)

Essential Character

For the purposes of this rule ,Goods must be:

- Mixtures
- Composite goods of different materials
- Composite goods of different
Components
- Goods put up in sets for retail sale

RULE 3(b)

Goods put up in set for retail sale means

- Consist of at least two different articles.
- Consist of products or articles put up together to meet a particular need or carry out a specific activity.
- Are put in manner suitable for sale directly to users without repacking.

RULE 3(b)

Example

Sandwich made of beef, with or without cheese, packed with Potato chips.

16.02? 20.04?

Answer: 16.02



Classification is made according to the component, or components taken together, which can be regarded as conferring on the set as a whole its essential character

General Interpretative Rule -3 (c)

The classification in this rule specifies that heading which occurs last in numerical order among those which equally merit consideration

Eg: Socks-61.15 and Mufflers-61.17



- *No essential character of socks or muffler is found
Last numerical order classification is 61.17*

General Interpretative Rule -4

- Commonly referred to as the 'kinship rule'
- Rule 4 is rarely used
- Classify under the same heading as goods similar or virtually identical (most akin)

General Interpretative Rule -5(a)

- Presented with the articles themselves
- Suitable for long term use.
- Shaped or fitted to contain a specific articles(s)
- Of a kind normally sold with the articles(s)

Eg: Camera, Musical instrument, Gun, drawing instrument, necklace and similar containers



The rule don't apply to containers which give the whole its essential character

General Interpretative Rule -5 (b)

- Packing materials and packing containers,
- Presented with the goods,
- Normally used for packing such good,
- Classify with the goods.

Eg: Styrofoam Chips used for the padding and insulation of many goods. Rarely the chips are reused. Classification of chips shall be along with the main goods.



Doesn't apply to containers suitable for repetitive use

e.g liquefied gas cylinder, metal drums etc



General Interpretative Rule -6

Only Subheadings at the same level are comparable

Conclusion

**Over 90% of goods can be classified using
Rule one**

Classification of Parts

Parts of General Use - Section Note 2 to Sec XV

Throughout this Schedule, the expression “parts of general use” means :

- (a) articles of headings 7307, 7312, 7315, 7317 or 7318 and similar articles of other base metal;*
- (b) springs and leaves for springs, of base metal, other than clock or watch springs (heading 9114); and*
- (c) articles of headings 8301, 8302, 8308, 8310 and frames and mirrors, of base metal, of heading 8306.*



Classification of Parts

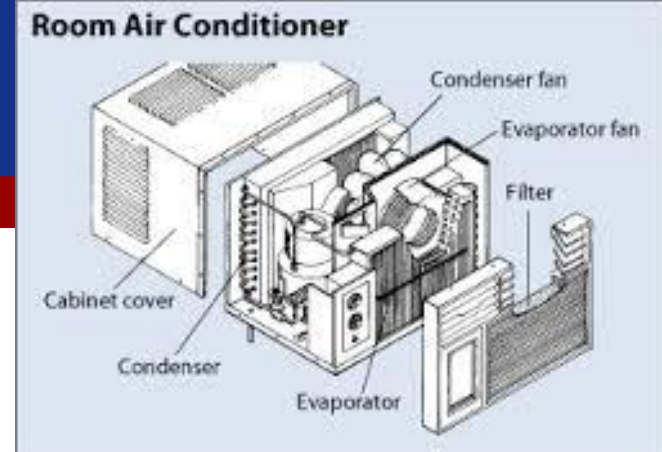
Parts of Machinery-

Section Note 2 to Sec XVI, Sec XVIII

2. Subject to Note 1 to this Section, Note 1 to Chapter 84 and to Note 1 to Chapter 85, parts of machines (not being parts of the articles of heading 8484, 8544, 8545, 8546 or 8547) are to be

classified according to the following rules :

- (a) parts which are goods included in any of the headings of Chapter 84 or 85 (other than headings 8409, 8431, 8448, 8466, 8473, 8487, 8503, 8522, 8529, 8538 and 8548) are in all cases to be classified in their respective headings;
- (b) other parts, if suitable for use solely or principally with a particular kind of machine, or with a number of machines of the same heading (including a machine of heading 8479 or 8543) are to be classified with the machines of that kind or in heading 8409, 8431, 8448, 8466, 8473, 8503, 8522, 8529 or 8538 as appropriate. However, parts which are equally suitable for use principally with the goods of headings 8517 and 8525 to 8528 are to be classified in heading 8517;
- (c) all other parts are to be classified in heading 8409, 8431, 8448, 8466, 8473, 8503, 8522, 8529 or 8538 as appropriate or, failing that, in heading 8487 or 8548.



Classification of Accessories

The Accessories(condition)Rules,1963

- Standard Accessories
- Optional Accessories
- Maintenance and repairing implements
- Standard supply and no separate charge

Classification of Composite Machines

Section Note 3 to Sec XVI ,XVIII

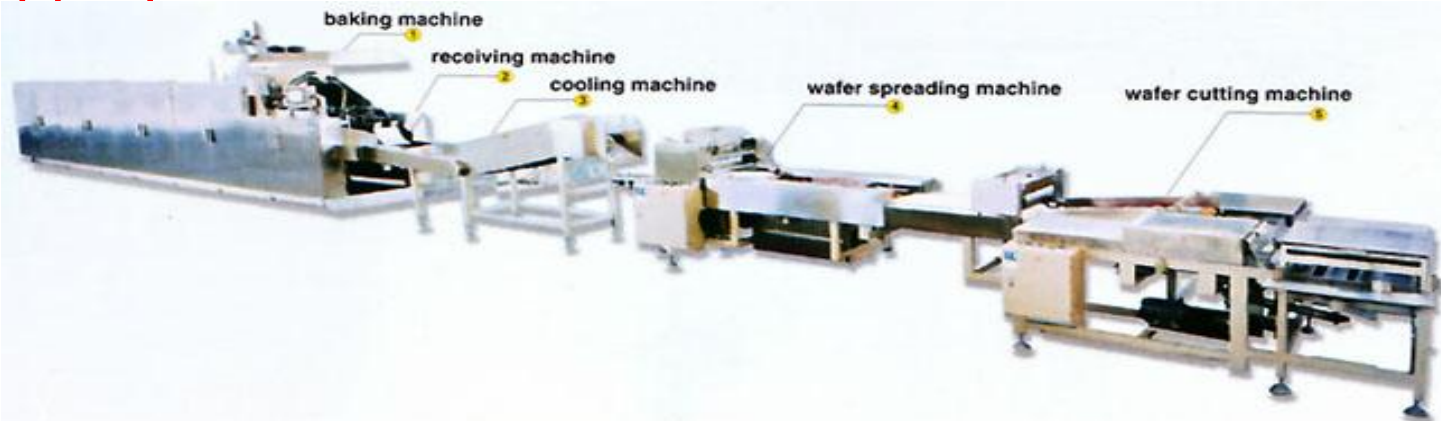
3. Unless the context otherwise requires, composite machines consisting of two or more machines fitted together to form a whole and other machines designed for the purpose of performing two or more complementary or alternative functions are to be classified as if consisting only of that component or as being that machine which performs the **principal function**.



Classification of Combination of Machines

Section Note 4 to Sec XVI

4. Where a machine (including a combination of machines) consists of individual components (whether separate or interconnected by piping, by transmission devices, by electric cables or by other devices) intended to contribute together to a clearly defined function covered by one of the headings in Chapter 84 or Chapter 85, then the whole falls to be classified in the **heading appropriate to that function.**



In sets

Section note 3 to Section VI

- Presented together
- Used together
- Relative proportions



Deemed Manufacture

- Note 4 to Chap 26- Ores to Concentrates
- Note 5 to Chap 27-Compression of gases
- Note 9 to Chap 28- Labelling/Re labelling
- Note 10 to Chap 29- Labelling/Relabelling
- Note 9 To Chap 38-Addition of other ingredients
- Note 7 to Chap 30-Brand
- Note 3 to Chap 68-Sawing/sizing/polishing
- Note 3 to Chap 69-Printing/Decorating
- Note 3 to Chap 72-Hardening/tampering
- Note 5 to Chap 73-Coating
- Sec XV- Note 10-Drawing-Redrawing of a rod
- Sec XVI – Note 6-Essential character

A close-up photograph of a fountain pen and a metal fastener (possibly a paperclip or a similar object) resting on a document. The document has some text, but it is mostly out of focus. The pen is dark-colored with a silver nib. The metal fastener is silver and has a textured, cylindrical body. The overall scene is lit with a cool, blueish light.

Thank You !

