

## Ratio of Cannon India decision valid even after proposed retrospective amendment in the Customs Act – CESTAT

11 March 2022



## Summary

The Customs, Excise and Service Tax Appellate Tribunal (CESTAT) Kolkata has held that under the customs law, a Show Cause Notice (SCN) can be issued only by a proper officer who has done the assessment in the first place. The CESTAT observed that under the Customs Law, customs officer and officers of Directorate of Revenue Intelligence (DRI) have been treated as distinct and separate. The CESTAT further ruled that in view of the proposed amendments as per the Finance Bill 2022, the customs officers and officers of DRI will be at par, however it does not propose to amend the power to issue SCN by the proper officer. Therefore, the SCN issued in this case by the DRI officers cannot sustain because DRI officers have not been entrusted the functions under the Customs law and such SCN was not issued by 'the proper officer'.

## Facts of the case

- The appellant<sup>1</sup> had imported LDPE re-processed granules through three different customs ports which were assessed and cleared for home consumption.
- The DRI conducted search operations and held that the appellant had undervalued imported goods. Later, a SCN was issued proposing recovery of differential duty<sup>2</sup> along with interest and penalties.
- The appellant submitted that the DRI officers are not 'proper officers'<sup>3</sup> to issue a SCN and this needs to be set aside as the order lacks jurisdiction.
- The department contended that any customs officer appointed prior to 6 July 2011 is a proper officer<sup>4</sup>.

## CESTAT Kolkata observations and ruling<sup>5</sup>:

- **DRI officers are an intelligence and security organisation:** The officers of DRI are not the customs officers<sup>6</sup>. The customs law does not mention DRI and its powers anywhere. These officers were treated as distinct and separate by legislature. As per RTI Act<sup>7</sup>, the DRI

officers are treated as an intelligence and security organisation that have been granted immunity. Such immunity was not given to the customs officers.

- **Power of the proper officer to issue SCN:** In the case of Canon India<sup>8</sup> the Apex Court had held that the officers of DRI can exercise functions of the customs officers only in case they are entrusted with such functions by the government. Also, the SCN can be issued only by the proper officers who had done assessment in the first place and not any other officer. In case if there is more than one proper officer, the SCN/demand can be raised by the proper officer who has assessed the bills of entry in the first place<sup>9</sup>. In this case, the bills of entries have not been assessed by officers of DRI. Hence, the SCN issued, and functions performed by DRI is without authority and thus cannot be sustained.
- **Meaning of the article 'the':** When the legislature uses the word 'the', it refers to a particular thing or person. If the parliament intended that any proper officer could exercise the power, then the word 'any' could have used. Thus,

<sup>1</sup> Beriwalla Impex Pvt. Ltd.

<sup>2</sup> Under section 28 of Customs Act

<sup>3</sup> Section 2(34)

<sup>4</sup> Both under section 17 and under section 28 of the Customs Act, 1961

<sup>5</sup> Customs Appeal No.75015 of 2015, Final Order No.75125/2022 dated 23 February 2022

<sup>6</sup> Section 3

<sup>7</sup> Right to Information Act, 2005

<sup>8</sup> Civil Appeal No.1827 of 2018, Judgment dated 9 March 2021

<sup>9</sup> or his successor in office

the Parliament has used 'the' with an intention to designate the proper officer who had assessed the goods at the time of clearance.

- **Provisions of the Finance Bill 2022:** If the Finance Bill becomes an Act, the DRI officers will be at par with customs officers. However, there is no proposal to amend the authority to issue SCN and accordingly, SCN can be issued only by proper officer who has done assessment in the first place.
- **SCN issued by DRI cannot be sustained:** The SCN<sup>10</sup> was not issued by the proper officer and DRI officers have not been entrusted the functions under the Customs Law. Thus, the order emanating from SCN issued by the DRI cannot be sustained.

## Our comments

In a landmark judgment by the Supreme Court in case of Canon India, it had been held that the DRI officers have no power to issue SCNs under the Customs Law. Further, only the proper officer could issue such a notice as the Parliament has employed the article 'the' before the words proper officer not accidentally but with the intention to designate the proper officer who had assessed the goods at the time of clearance.

However, the Finance Bill, 2022 has proposed to widen the scope of the term 'proper officer' under customs law to include DRI and other officials appointed by the Central Board of Indirect Taxes and Customs (CBIC) with retrospective effect.

Interestingly, the CESTAT Kolkata has emphasised that there is no proposal to amend the provisions relating to power for issuance of SCN under the customs law. Therefore, it seems that the SC's verdict in the case of Canon India shall remain valid even after widening of the scope of the term proper officer and thus the DRI officers may not be authorised to issue SCNs under the customs law.

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<sup>10</sup> section 28(11) of the Customs Act

# Contact us

To know more, please visit [www.grantthornton.in](http://www.grantthornton.in) or contact any of our offices as mentioned below:

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## NEW DELHI

National Office,  
Outer Circle, L 41,  
Connaught Circus,  
New Delhi - 110001  
T +91 11 4278 7070

## NEW DELHI

6th Floor, Worldmark 2,  
Aerocity,  
New Delhi - 110037  
T +91 11 4952 7400

## BENGALURU

5th Floor, 65/2, Block  
A, Bagmane Tridib,  
Bagmane Tech Park,  
CV Raman Nagar,  
Bengaluru - 560093  
T+91 80 4243 0700

## CHANDIGARH

B-406A, 4th Floor,  
L&T Elante Office Building,  
Industrial Area Phase I,  
Chandigarh - 160002  
T +91 172 4338 000

## CHENNAI

9th Floor, A Wing, Prestige  
Polygon, 471 Anna Salai,  
Mylapore Division,  
Teynampet,  
Chennai – 600035  
T +91 44 4294 0000

---

## DEHRADUN

Suite No 2211, 2nd Floor,  
Building 2000,  
Michigan Avenue,  
Doon Express Business  
Park, Subhash Nagar,  
Dehradun - 248002  
T +91 135 2646 500

## GURGAON

21st Floor,  
DLF Square, Jacaranda  
Marg,  
DLF Phase II,  
Gurgaon - 122002  
T +91 124 462 8000

## HYDERABAD

7th Floor, Block III,  
White House,  
Kundan Bagh,  
Begumpet,  
Hyderabad - 500016  
T +91 40 6630 8200

## KOCHI

6th Floor,  
Modayil Centre Point,  
Warriam Road Junction,  
MG Road  
Kochi - 682016  
T +91 484 406 4541

## KOLKATA

10C Hungerford Street,  
5th Floor,  
Kolkata - 700017  
T +91 33 4050 8000

---

## MUMBAI

11th Floor, Tower II,  
One International Center,  
SB Marg Prabhadevi (W),  
Mumbai - 400013  
T +91 22 6626 2600

## MUMBAI

Kaledonia, 1st Floor,  
C Wing,  
(Opposite J&J Office),  
Sahar Road,  
Andheri East,  
Mumbai - 400069  
T +91 22 6176 7800

## NOIDA

Plot No 19A, 2nd Floor,  
Sector - 16A,  
Noida - 201301  
T +91 120 485 5900

## PUNE

3rd Floor,  
Unit No 309-312,  
West Wing, Nyati Unitree,  
Nagar Road, Yerwada  
Pune - 411006  
T +91 20 6744 8800

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For more information or for any queries, write to us at [gtbharat@in.gt.com](mailto:gtbharat@in.gt.com)



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