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Date: 24.04.2025

CESTAT Chennai uphold exemption benefits and correct classification under CTH 8415 9000

The Customs, Excise and Service Tax Appellate Tribunal (CESTAT), Chennai Bench – Court No. III, has ruled in favor of M/s One Care Medical Centre, Coimbatore, quashing the reclassification of imported Variable Refrigerant Flow (VRF) Air Conditioning Units and the denial of customs exemption benefit.

Background:

- The appellant imported various models of Toshiba indoor and outdoor air conditioning units from M/s Toshiba Carrier (Thailand) Co. Ltd. under Bills of Entry dated 07.11.2014.
- They classified the goods under CTH 8415 9000 and claimed benefit under Customs Notification No. 46/2011 Sl. No. 1103(1).
- The Revenue disagreed, asserting the goods were complete air conditioning units of more than 2-ton capacity, reclassifying them under CTH 8415 8110, attracting full duty.

Revenue's Allegations:

- Claimed the goods were not "parts" but full split AC systems (multi-split VRF type).
- Argued that under Rule 2 of General Rules of Interpretation, the goods functioned as complete units despite lacking accessories like Y-joints or pipes.
- Asserted that the units exceeded 2 tons capacity, and both indoor and outdoor units were capable of heating and cooling, and hence not "parts".

Tribunal's Analysis:

- Relied on CBIC Circular No. 666/57/2002–CX which defines essential components for air conditioning systems.
- Noted that the imported units lacked key elements such as capillary lines and control systems.
- Referred to:
 - A.V. Global Corporation Pvt. Ltd. [2022 (382) ELT 65 (Tri.-Mumbai)]
 - Mitsubishi Electronic India Pvt. Ltd. [2023 (6) TMI 319 – CESTAT Chennai]
- Both decisions had ruled that VRF AC indoor/outdoor units are classifiable under CTH 8415 9000 as parts.

Final Verdict:

- CESTAT allowed the appeal and ruled that:
 - The goods are classifiable under CTH 8415 9000.
 - The appellant is entitled to the benefit of Notification No. 46/2011 Sl. No. 1103(1).
 - Confiscation under Section 111(m) and penalty under Section 112(a) of the Customs Act were unjustified.
- Impugned orders were set aside and consequential reliefs allowed.

Legal Impact:

- Confirms that VRF systems imported without essential refrigerant cycle components do not constitute full air conditioners.
- Reinforces judicial consistency across CESTAT benches on classification of advanced HVAC systems.
- Protects legitimate claims to customs exemptions by importers of modular AC systems.

This Article has been written by Shri Ravi Shekhar Jha, Advocate Delhi High Court based on his interpretation of the law. He can be reached at his email id intelconsul@gmail.com or on his Mobile +91-9999005379.

Source: CESTAT Chennai

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**CUSTOMS, EXCISE & SERVICE TAX APPELLATE TRIBUNAL
CHENNAI**

REGIONAL BENCH - COURT No. III

Customs Appeal No. 41979 of 2015

(Arising out of Order-in-Appeal C.Cus. II No.550/2015 dated 29.05.2015 passed by Commissioner of Customs (Appeals-II), 60, Rajaji Salai, Custom House, Chennai 600 001.

M/s.One Care Medical Centre

No.61, NSR Road,
Saibaba colony,
Coimbatore 641 011.

... Appellant

VERSUS

**The Commissioner of Customs
(Chennai-II)**

Custom House, No. 60, Rajaji Salai,
Chennai 600 001.

... Respondent

APPEARANCE :

Ms. Shobana Krishnan, Advocate for the Appellant
Ms. O.M. Reena, Authorized Representative for the Respondent

CORAM :

**HON'BLE MR. P. DINESHA, MEMBER (JUDICIAL)
HON'BLE MR. M. AJIT KUMAR, MEMBER (TECHNICAL)**

FINAL ORDER No.40470/2025

**DATE OF HEARING : 10.12.2024
DATE OF DECISION : 23.04.2025**

Per: Shri P. Dinesha

1. Facts of the case as could be gathered from the impound Order-in-Appeal dated 29.05.2015, which apparently proceeds on a serious fallacy as regards the very description of goods imported are concerned, that the importer–appellant filed Bills of Entry dated 07.11.2014 for clearance of various models of 'Toshiba Air conditioner Outdoor unit' and 'Toshiba Air Conditioner Indoor units' by classifying the same under CTH 8515 9000, thereby availing the benefit of Customs Notification No.46/2011 Sl. No. 1103(1). The impugned goods were supplied by M/s.Toshiba Carrier (Thailand) Co. Ltd. The Order-in-Original dated 23.01.2015 describes the goods in question as under:

1.2 The subject goods are multi-split air conditioners working on Variable Refrigerant Flow (VRF) Technology, where one outdoor unit is attached to multiple indoor units of various capacities according to the requirement of the room to be air conditioned. Moreover, the indoor units and the outdoor units have separate power supply units.

1.3. The said goods in question have been described by the Commissioner (Appeals) as 'Split Air Conditioners only having a capacity of 2 tones and above' and upheld the Order-in-Original, rejecting the classification adopted by importer under CTH 8415 9000 and reclassifying the goods under CTH 8415 8110.

2. It appears that the Revenue considered the scrutiny of import documents filed by the importer pertaining to the import of eight numbers of condensing unit (outdoor units) of more than 2.5 tons, 56 numbers of indoor units of various models and 9 numbers of panels for 4 way cassette. The importer had classified the goods in question which, according to the Revenue, was applicable for parts, but since the imported goods were more than 2 ton capacity, a SCN dated 05.12.2014 was issued proposing to reject the classification and re-classify the same under CTH 8415 8110 under merit rate of duty. From the record, it appears that the importer filed its detailed reply justifying its classification under the CTH declared and the benefit of Notification supra, but the Adjudicating Authority having considered the explanation, however rejected the classification declared by the importer and proceeded to confirm the proposals made in the SCN. Seriously aggrieved by the demand and the classification, the importer appears to have approached the First Appellate Authority by filing an appeal. The Commissioner (Appeals) also having rejected their appeal, thereby upholding the OIO, the importer has filed this appeal before us.

3. Heard Ms. Shobana Krishnan, Ld. Advocate for the Appellant and Ms. O.M. Reena, Ld. Authorized Representative for the Respondent.

4. The only issue to be decided is, (i) whether the impugned goods fall under CTH 8415 9000 as claimed by the importer-appellant or under CTH 8415 8110 as held by

Revenue and (ii) eligibility of imported goods for benefit of Customs Notification No.46/2011 Sl. No. 1103(1), (iii) Liability of imported goods for confiscation under Section 111 (m) of the Customs Act, 1962 and (iv) liability to penalty under Section 112 (a) *ibid*.

5. The case of the Revenue is that as per Explanatory Notes, sub-heading 8415.90 includes both indoor units and outdoor units for split system, air conditioning machines of subheading, 8415.10 when presented separately, 8415.10 covers 'Air conditioners of Windows or Wall types, Self contained or Split system, Split system type air conditioners are ductless and utilize a separate operator for each area to be cooled and in split system, outdoor unit is refrigerating/condensing unit and indoor units are evaporate units. The above made the Revenue to assume that when outdoor units/indoor units of split system classifiable under CTH 8415.10 are imported separately, then only they would qualify to be classified under 8415.90 as 'parts'. The importer in the present case have in their self-declaration clarified that the outdoor units and indoor units were imported in combination with one outdoor unit attached to multiple indoor units and hence, the goods in question cannot be considered as parts falling under CTH 8415.90 and thus, the benefit of FTA Notification.046/2011 as claimed is not available to them. Regarding classification, the outdoor units were alleged to be of more than 2-ton capacity as per technical specifications/catalogue furnished by the importers, the goods were multi-split air conditioners working on Variable Refrigerant Flow [VRF] technology. Here, one outdoor unit is attached to multiple indoor units of

various capacities, depending upon the requirement of the room to be air conditioned and the indoor and outdoor units would have separate power supply units, unlike a split system covered under CTH 8415.10. Catalogue/technical specifications also provided that both the outdoor and indoor units were equipped with heat pump and both the units were capable of being used for both heating as well as cooling purposes. Hence, the Revenue felt that Air conditioner of two ton and above capacity with reversible heat pump would fall under CTH 8415 8110; other air conditioners of 2-ton and above having refrigerating unit, i.e. outdoor units of more than 2-ton capacity would fall under CTH 8415 8210; AC of 2-ton and above not having refrigerating unit/indoor units or evaporate units would fall under 8415 8310; and hence, the imported goods were more appropriately classifiable under CTH 8415 8110.

6. It was also the case of the Revenue that Air Conditioner of both indoor and outdoor units which are imported in combination as a complete set, though without refrigerating pipes and 'Y' joint which are essential parts for connecting outdoor and indoor units, the absence of which would not change the basic functions of a split air conditioner since these items were never imported along with air conditioners, but mostly supplied as accessories.

7. In the impounded Order-in-Appeal, it is held by the Commissioner (Appeals) that going by the function, it could not be said that non-presence of the two items would not make an otherwise complete air conditioner as parts of the same, according to Rule 2 of General Rules of Interpretation

of Import Tariff, any reference in a heading to an article shall be taken to include a reference to that article incomplete, unfinished, provided that, as presented, the incomplete or unfinished has the essential character of the complete or finished articles.

8. *Per contra*, this was countered by the importer, firstly by placing reliance on the very clarification issued by CBIC in Circular No. 666/57/2002-CX dated 25.09.2002, wherein, the following six items are listed as essential components required to complete one refrigeration cycle, namely: -

- (i) Evaporate/cooling coil,
- (ii) Condenser coil,
- (iii) Motor,
- (iv) Fan or blower for circulating the air
- (v) Compressor; and
- (vi) Capillary line (expansion valve).

Admittedly, the importer has not imported components, like capillary line and control system as well, which is also a crucial for a VRF Air Conditioner system.

9. At this juncture, Id. Advocate has placed reliance on an order of Mumbai Bench in the case of **A.V. Global Corporation Pvt. Ltd. & Others Vs Commissioner of Customs, Nhava Sheva & Ors.** [Order No.A/85491-85498/2022 dt. 28.02.2022 reported in 2022 (382) ELT 65 (Tri.-Mumbai)] wherein, the co-ordinate Bench has specifically considered the classification of indoor and outdoor units used in CMVRF air conditioners and held that the items in question would fall under CTH 8415 9000 as

parts of air conditioners. Our attention was also drawn to a recent decision/order of this very Chennai Bench in **Mitsubishi Electronic India Pvt. Ltd. Vs CC Chennai** [Final Order No.40365/2023 dated 30.05.2023 reported in 2023 (6) TMI 319-CESTAT CHENNAI], wherein the said decision of **A.V. Global Corporation** (supra) has been followed to hold that the imported indoor and outdoor units of VRFAC system are rightly classable under CTH 8415 9000 as 'parts'.

10. We have carefully considered the rival contentions and we have also considered the orders of coordinate Benches of CESTAT relied upon by the learned Advocate (supra). We find, after going through the orders, that the Tribunal has considered the contentions of the Revenue for denying the benefit of notification and ordering re-classification per OIO for the reasons given thereunder and it has been clearly laid down that the goods in question would fall under CTH 84159000 as 'parts'. In view of the above and following the judicial discipline, we do not find any merit in the impugned order, which calls for setting aside the same, which we hereby do.

11. Resultantly, we allow the appeal with consequential benefits if any, as per law.

(Order pronounced in the open court on 23.04.2025)

(M. AJIT KUMAR)
Member (Technical)

(P. DINESHA)
Member (Judicial)