

10 Ways to Cut Customs Duty Costs

Improving Gross Profit Margins & Injecting Cash

Cutting customs duty costs is an often-untapped way to improve gross profit margins and inject cash into a business. Business should start by asking how much customs duty they are paying or have paid in the last three years (for reclaims purposes).

Ten classic methods to reduce customs duty costs are:

1. Reclassification of products customs Tariff codes;
2. Use of Free Trade Agreements (FTA);
3. Deducting allowable elements from the customs value;
4. Use of customs duty reliefs;
5. Use of Autonomous Tariff Suspensions;
6. Automating customs declarations;
7. Streamlining customs administration and associated costs using digital tools;
8. Deferring the point at which customs duty is paid;
9. Extending the methods through the supply chains with suppliers and customers;
10. Applying the above planning retrospectively to realise customs duty reclaims.

These methods are explored further below.

1. Reclassification of Tariff Codes

Needle in a Haystack: Getting the Correct Code

Determining the correct customs classification (or tariff) is often difficult and errors can lead to significant overpayments of customs duty. The customs tariff has over 16,000 codes, with rates varying from 0-260%. It often has its own specific definitions which are often different to general usage or business norms and a single word can have dramatic effect.

Choosing the Best Option: Tariff Re-Engineering

Once you are confident that you have the correct code then there is sometimes the possibility of utilizing tariff engineering, a common method for legitimately changing the objective characteristics of what is imported. The product could be split down for subsequent assembly in the UK or built-up prior to submission to customs.

2. Customs Origin & Free Trade Agreements (FTA)

The UK has FTA with over 120 countries that allow qualifying goods to be imported at a reduced, often free rate of duty. Businesses must be proactive to take advantage of FTA arrangements, determining whether the conditions apply and ensuring other parties provide the necessary documentation and make the necessary claims.

There are several little-known elections that can increase the scope of savings and make the claims process more robust. Once set up, claims for the lower rates should just roll-in but put in checks to make sure nobody has dropped the ball.

3. Customs Valuation: Stripping Elements

The regulations require several items be added to the cost of goods to arrive at an acceptable customs value (e.g. freight costs to the EU and insurance). The customs rules also allow for several elements to be deducted from the customs value, thus lowering the customs duty cost. For example, goods are often purchased on payment terms (e.g. 30, 60 or 90 days) and so the importer is paying for both the goods and the provision of finance. If certain conditions are met, a deduction can be made for the finance element.

Our Customs Planning Ideas Database lists 25 potentially deductible elements.

Any additions to the customs value must also meet conditions. We have come across several instances where a company has uplifted its customs value to include costs such as royalties, R&D contribution, commissions etc., where the charging conditions were not met. Getting rid of these uplifts again lowers costs.

Note that 70% of imports are from related parties. Special rules apply to these transactions, but there are still potential deductions and savings available. These imports also provide several other cost saving opportunities.

4. Duty Relief

There are five common duty relief schemes commonly adopted by businesses, namely:

RELIEF	BASIC APPLICATION
Inward Processing	Relief on imports that are processed and subsequently exported or put to other qualifying uses
Outward Processing	Relief on the value of materials exported and subsequently re-imported within a new product
Tariff Inversion Relief	Applying the duty rate of UK manufactured goods rather than the duty rate of the imported components where the latter is higher
End Use	Reduced or nil rates of duty when imports are used to produce certain things (e.g. car components used in industrial assembly)
Returned Goods Relief	Return of goods to the EU/UK that have not been processed

In addition, there are also several lesser-known specific reliefs, some general (sample relief, low value consignments, testing) and some industry specific especially is aerospace, chemicals, food & drink.

All these relief schemes have options and elections that can increase their scope, ease administrative burden, and reduce compliance risks. In our experience, these options are not well understood and are often overlooked.

5. Autonomous Tariff Suspensions

Customs duties are aimed at protecting domestic industry rather than simply raising revenue. Autonomous suspensions can be applied for to remove customs duty on imports or raw materials and components that are not sufficiently available in the UK.

Businesses can apply and lobby for new tariff suspensions and, if granted, these will remove tariffs on those imports for five years or longer. Brexit is likely to give rise to greater potential in this area as the UK looks to see what is made in the UK rather than the whole of Europe.

There are many existing suspensions already in place that businesses are unaware of and care should be taken to look at all the individual tariff lines around your imported goods.

6. Customs Declarations

A customs declaration must be completed, submitted, and accepted each time goods are imported or exported from the EU/UK. Agents typically charge businesses £35-55 per customs entry, depending on complexity and buying power.

There are several software options for bringing the customs declaration function completely or partially inhouse that could reduce declaration charges by up to 90% or provide greater visibility and analytical information back for the same price as you are currently paying.

The number of customs declarations businesses will be making is likely to increase significantly on Brexit as movements to and from the EU are also caught.

7. Streamlined Customs Management

Customs management has two key aspects. Firstly, it is necessary to manage the process of providing the necessary information to make the customs declarations. This often involves determining the core customs elements (classification, origin, valuation adjustments etc.), getting the information and necessary documentation to third party service provider to make the declaration and chasing to get copies of those entries for your records. Well thought through processes can streamline this process and costs, but greater savings can be made through software solutions (see #6).

Secondly, customs compliance is subject to audit-based control. Failure to meet your obligations can result in penalties, additional duty demands, investigations,

clearance delays etc. As such, most businesses spend considerable resources carrying out checks of their customs declarations against instructions. Again, streamlined procedures can generate savings here. But, there have been significant software developments in this area which should help semi-automate customs control. For example, our Customs Analytics Tool (CAT) pulls in customs data electronically from HMRC, carries out several checks to look for errors and creates exception reports.

We have seen businesses employ 2-3 people to carry out checks that could be completed more accurately using software in less than an hour, saving over £40,000 per annum.

8. Deferral of Customs

We appreciate that deferring customs duty is more of a cash-flow benefit than cost saving benefit. Customs Warehousing, Duty Deferment Accounts etc., delay the point at which duty is collected by at least 45 days.

The UK has moved import VAT to postponed accounting, whereby the import VAT is an in and out on your VAT return rather than something paid and then recovered. Businesses should check that they are taking advantage of this.

9. Working the Supply Chain

The benefits of the above planning ideas can deliver savings for your business. The potential benefits can often be grown exponentially by working with your suppliers and customers.

Working with Customers: For example, if your domestic customer sells to export markets then you could work together to extend the benefits of Inward Processing Relief (see #4) by transferring goods to them duty free for them to enter their own relief. Neither party would qualify for this relief in isolation but working together, you strip cost out of the supply chain.

Working with Suppliers: You could be the party exporting in the above example. Another example, you may manufacture items that would attract 0% duty if you imported them into the UK. However, domestic suppliers may be importing materials or components into the UK which attract duty and including these costs in the sales to you. Working together you could strip out these costs using the inverted tariff relief (see #4).

We have seen instances where whole supply chains work together effectively to reduce costs.

10. Reclaims

Many of the planning ideas above can be applied retrospectively, up to three years. Retrospection can inject cash back into the business.

Any reclaim will require you to prove your case, build the necessary supporting data file and complete the appropriate forms. Specific agreement on the above methods is a key step in agreeing any reclaim with the customs authorities.

How We Can Help

We have a database of over 200 customs planning ideas to reduce customs duty costs and recover overpayments. Our bespoke review process enables us to match planning ideas against your business to find opportunities, work out how the opportunities work best together, build claims and present arguments.

Our methodology is specifically designed to minimize any risk of subsequent challenge by providing proper disclosure, applying for legal rulings (where possible) and properly completing any of the necessary formalities. Our consultants have a wealth of experience and expertise in this area and know the traps to avoid.

In many cases we can work on a no win: no fee basis where our fees come out of cash returned to you by HMRC or when you have benefited from ongoing savings. We take the business risk and simplify your Return on Investment case.

Contact us now. Simply [E-MAIL US](#) to arrange a free consultation to explore whether you could benefit from savings, improve margins and inject cash into your business.