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Customs Services

GUIDE TO CUSTOMS SERVICES

OUR CUSTOMS EXPERTISE. YOUR KUDOS

THE WORLD OF CUSTOMS IS COMPLEX and subject to significant change and often uncertainty. Yet businesses which trade across borders must comply with their ever-changing legal obligations, regardless of their size.

Harwood Hutton's specialist customs team supports a number of UK accountancy firms who have turned to us to provide the required expertise rather than set up their own expensive customs operation.

They work with us confident in the knowledge that we ring-fence our customs work so it does not encroach on the other services provided by accountants and protects their hard-earned and precious client relationships.

We can engage directly with the client, or we can subcontract with the accountancy firm – whichever works best.

If you have clients involved in international trade and would like to help them stay compliant and prosper, we are at your service.

In this brief guide, we outline the main areas of customs compliance. The issues already apply to the UK's trade with third countries and will continue to do so after Brexit.

To find out more, without obligation, please get in touch



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In this guide:

3	Authorised Economic Operator
4/5	Dealing With Clearance Agents
6/7	Customs Classifications
8/9	Customs Valuation
10/11	Origin
12/13	Customs Warehousing
14/15	Customs Disputes
16/17	Success Stories

AUTHORISED ECONOMIC OPERATOR

OVERVIEW

The intention of AEO is to strengthen the security of shipments of goods moved across international borders.

AEO is an accreditation awarded by HMRC to UK businesses which demonstrate strong internal procedures to:

- **Secure** their compliance with customs obligations (AEO C) and/or
- **Safeguard** the security of the element of supply chain which they control (AEO S).

An AEO certificate demonstrates to Customs authorities, customers and suppliers that the holder's role in the international supply chain is secure.

AEO is based on, and is compatible with, the World Customs Organisation's SAFE Framework of Standards, which is being implemented by Customs authorities across the world.

BENEFITS

- Fast track priority customs clearance
- Reduced deferment guarantee requirements
- Full waiver of 'potential duty' guarantee
- Competitive advantage
- Less intrusion from customs authorities
- Eligibility for other customs facilitations
- Mutual recognition in other territories

HOW WE CAN HELP

We can help a business to prepare for AEO by reviewing existing procedures, implementing new procedures, completing the application form and assisting during the audit by HMRC to ensure a successful application.

An annual independent audit will help ensure AEO conditions continue to be fulfilled.



DEALING WITH CLEARANCE AGENTS

OVERVIEW

Most importers and exporters use the services of customs clearance agents to complete and submit their customs entries.

The clearance agent is not responsible to customs authorities for the accuracy of customs entry data – this is the responsibility of the importer.

The accuracy of an import entry depends entirely on the information provided to the clearance agent. It is essential, therefore, that importers have robust procedures to ensure full and accurate instruction is given to their clearance agent.

HOW WE CAN HELP

With an understanding of your supply chains, we can provide template clearance instructions for you to issue to your authorised clearance agents.

We can provide appropriate training to key personnel to ensure the instruction given to clearance agents is accurate and compliant with customs requirements.

We can train staff to check that clearance instructions to agents have been fulfilled and that any errors are corrected.

If in-house resource is in short supply, we can check completed customs entries every month to ensure errors are addressed before they become serious, minimising the risk of paying too much or too little in duty and import VAT.

We can benchmark the services and costs of clearance agents to help clients obtain the best deal for their business.



CUSTOMS CLASSIFICATIONS

OVERVIEW

Every imported product, material, component or part has its own commodity code, also known as a HS code (Harmonised System) or tariff code.

The tariff classification determines the rate of customs duty, as well as identifying any restrictive measures or conditions which must be complied with. Importers must declare the correct tariff classification for their goods at import in order to avoid paying too much, or too little, in customs duty and import VAT charges.

With many thousands of commodity codes in the customs tariff, subtle changes in product design or composition can affect the tariff classification and the rate of customs duty payable.

HOW WE CAN HELP

With an understanding of your products, we can determine the correct tariff classification, which minimises the risk of penalties. In some cases, overpaid customs duties can be identified during an independent audit and reclaimed following the correction of previous misclassification.

While any item can have only one tariff classification, a review of your import procedures may identify opportunities to re-engineer the product before import to achieve a more favourable tariff classification.

We can train and support key personnel in the rules of classification and design a robust classification procedure to help the business to comply with its obligations.

We can challenge unfavourable classification decisions issued by HMRC and secure binding rulings in instances of uncertainty.

We also offer an outsourced classification service for clients with limited internal resources.



CUSTOMS VALUATION

OVERVIEW

When goods are imported, a customs declaration must include their value as the basis on which customs duty and import VAT is charged. This must be the total cost of the goods to the importer, including the cost of freight and insurance up to the point of import.

Where there is no transaction, or where a transaction price has been influenced by the relationship between the buyer and seller, there is a strict hierarchical methodology to determine the correct customs value.

Some costs can be excluded from the customs value, providing they can be identified at the time of import:

- Buying commissions, payable under the terms of a buying agency contract
- Post-import construction or installation charges
- Certain financing charges
- Certain royalty payments (currently under review).

Some costs must be added to the customs value, where they are not already included in the invoice price:

- Assists, eg tooling, moulds etc
- Design work
- Certain royalty payments (currently under review), payable as a condition of the purchase of the imported goods, even if at a later date
- Insurance, where the goods are insured in transit
- Commissions, other than buying commissions as described above.

HOW WE CAN HELP

A customs valuation review can highlight and correct any historical errors, usually before they are detected and investigated by HMRC.

Overpaid duties may be reclaimed going back three years, with adjustments made to reduce the customs value going forward.

A strategic review of purchase order contracts, agency agreements, royalties and transfer pricing arrangements can identify opportunities (for savings) as well as risks (of unexpected duty demands and penalties).



ORIGIN

OVERVIEW

The origin of imported goods is one of many elements which must be declared to customs authorities at import. Where there is a Free Trade Agreement (FTA) between countries, goods which meet strict origin criteria may be eligible for preferential rates of customs duty.

Different rules of origin apply to different goods, which means a compliant claim for preference is dependent upon a sufficient knowledge of the goods to determine the correct customs classification, then additional knowledge of the manufacturing process to ensure the correct origin rule is applied.

In manufacturing, a strategy of multiple sourcing of components and parts is often relied upon to ensure continuity of production but can sometimes result in inconsistent eligibility for preference.

BENEFITS

Managed properly, a preferential origin procedure can deliver significant savings in customs duty costs and can often influence strategic decisions in supply chain planning.

HOW WE CAN HELP

We can review the eligibility to preference of goods imported from relevant suppliers and implement procedures for obtaining accurate evidence of origin.

We can review manufacturers' bills of materials to ensure any changes in material suppliers are correctly captured and reflected in subsequent declarations of origin.

We can train key personnel to understand and apply the correct rules of origin, and undertake periodic reviews of preferential origin procedures.



CUSTOMS WAREHOUSING

OVERVIEW

Customs warehousing enables the storage of imported goods without payment of customs duty or import VAT, which is suspended until those goods are removed from storage for use in the UK.

Any business with suitable premises can operate a customs warehouse, so long as they can manage their compliance obligations. It can be particularly helpful for businesses with slow-moving product lines, as well as for those who are part of a 'just-in-time' supply chain.

The key requirements are the necessity to identify duty suspended goods within the warehouse records and to ensure removals from customs warehousing are correctly declared to HMRC.

BENEFITS

- Cash flow advantage through suspending the payment of customs duty and import VAT
- No UK customs duty or import VAT where goods are re-exported
- Common stocking of duty suspended and duty paid goods – no need for physical segregation
- Multiple sites can be approved by a single authorisation
- Abbreviated frontier declaration to HMRC, enabling faster clearance times
- Some activities, including quality inspections can be undertaken before payment of customs duty and import VAT.

HOW WE CAN HELP

Harwood Hutton can evaluate the benefits of customs warehousing for clients and assist during the application process, providing training where required.



CUSTOMS DISPUTES

OVERVIEW

HMRC undertakes post-import checks of declarations made by or on behalf of an importer. These checks can go back three years and can be time-consuming.

Where HMRC believes duty has been underpaid, it will issue a demand for payment, covering the past three years but payable in just 10 days. This can severely impact an importer's finances.

Less than one in 20 of customs-related decisions issued by HMRC are challenged, yet about one in three challenges are successful.

HOW WE CAN HELP

An independent customs 'pre-audit' can help to prepare for a visit from HMRC, together with attendance at meetings with HMRC.

A regular check of customs declarations can identify and correct errors before they are detected and investigated by HMRC.

We can often identify errors and misunderstandings in HMRC's conclusions, with a high success rate in overturning their original decision.

We can represent clients at independent Tribunal proceedings, where required. However, most of our cases are satisfactorily resolved before they reach this stage.



INTERNATIONAL RESCUE!

Some examples of our recent work

- A client was using the Temporary Admission procedure for items imported for auction but did not manage his compliance with the conditions for relief from duty and import VAT, resulting in a demand from HMRC for £1.7m. With detailed analysis of the auction records, we were able to construct an audit trail back to the relevant import entries, and through to evidence of export, resulting in a full withdrawal of the demand.
- A UK importer of seafood products was given a demand from HMRC of £700k because HMRC believed the importer had used the wrong tariff code for its imports and claimed the corrected tariff code meant customs duty had been underpaid. We investigated the manufacturing processes for the goods in question to demonstrate to HMRC that their allegations were incorrect and that the importer had, in fact, correctly declared his imports accurately. On presentation of our findings, HMRC's review team overturned the demand.
- A manufacturer of ingredients for use in the food and drink sector realised all his suppliers were based in the EU and feared Brexit would cause significant damage to his business. We have undertaken an exercise to calculate the potential customs duty which could be added to his costs by Brexit, and worked with the manufacturer to prepare a letter to all his suppliers, setting out the preparations being made to ensure minimum disruption to supply chains.
- An accountancy firm had a valued client who needed help to apply for customs warehousing. Recognising they did not have the knowledge and experience of customs warehousing in their own firm, we engaged to provide the required assistance, limiting our work to customs advisory support only, thus protecting the accountancy firm's relationship with its client.
- A major international law firm sought our customs expertise to resolve a customs classification dilemma for a client. The dilemma expanded to include a complex preferential origin issue, with significant amounts of customs duty potentially at stake. We resolved the classification and origin issues and managed the solution which avoided any future or retrospective customs liability.



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For more information please contact Ian Worth.

Harwood Hutton Customs Service

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