



Links in the chain

Is the supply chain of your business clients as efficient as it could be?
Susan Morley provides a guide through the most important considerations.

TEN SECOND SUMMARY

- 1 Companies and their advisers should review the opportunities that are available to improve import and export processes.
- 2 Brexit has focused attention on import duty rates and VAT and how these might change between the EU and the UK.
- 3 Customs work can facilitate or, if not done properly, act as a brake on international trade.

All international supply chains have one thing in common – goods crossing borders. But how much attention does your company pay to the customs process that supports this key activity? Brexit has put customs issues front and centre with many scare stories predicting catastrophe, doom and gloom. Businesses need to know enough about what is actually happening to their goods at this critical point to follow the arguments or work out how they might be affected?

To professionals, it is quite clear that many companies have no idea of current procedures or what is done in their name. Nor of the opportunities available to improve now if only time was taken to explore the options available.

For business that have only ever traded with the EU, now is the time to start learning how customs procedures work. This is because, although there is a chance that current procedures or something close to them might

be negotiated, it is quite likely that there will be a need for similar customs processes to those currently in place for shipments to and from the rest of the world.

Exporters and importers remain legally liable for errors and omissions in their customs work even if they outsource this to third parties such as freight agents or fast parcels operators. So whatever size a company has reached it needs to know, at the very least, the rules for selecting tariff codes, how a value for customs should be calculated, how origin works and how to check a customs entry.

Brexit planning

Brexit has also brought the world of import duty rates and VAT payments to the fore. Much has been said about how duty rates might change between the EU and the UK if there is “no deal” or no “special agreement”. At present, there is no duty at all between the UK and the EU27. Without a deal of some kind, duty will become payable on imports to the UK from those other states and on exports to them from the UK.

How much duty will depend on the product because duty is determined by the tariff code (commodity number). However, many products have a 0% duty rate and will continue to do so. The average is between 1% and 5% with a few products such as clothing, some foods, and car parts having higher rates. Part of a business’s Brexit preparations should be to find the tariff code for its products and review the import duty rates so that it can prepare a strategy to cope with the potential change.

FURTHER INFORMATION

Experts at Morley Consulting use their years of commercial experience to provide practical, pragmatic advice and training to businesses of all sizes and across all sectors. They specialise in customs procedures, import, export and export licencing, business standards, compliance, audit, and process improvement.
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Customs procedures

There are many customs procedures to help importers legally avoid paying import duty and, in some cases, VAT. These procedures will continue to be available post-Brexit. Some examples follow.

- **Inward processing** – for goods inbound to the UK from outside the EU for processing or repair, no import duty or VAT is payable at import. Once the processing or repair is complete, goods can be re-exported or moved to a different special procedure, such as customs warehousing, without the need to pay any import duty or VAT. Goods can also be imported to the UK. At that point, and at the importer's discretion, import duty and VAT become payable either at the rate due on the imported components or the finished item.
- **Outward processing** – goods outbound to countries outside the EU for processing or repair. When they return after processing – say cloth is sent out and suits are sent back – no import duty and VAT is payable on the value of the returning goods. Duty and VAT are only payable on the added value; for example, the making of the suit. If repairs are returned under warranty, no duty or VAT is payable on re-import to the UK. Alternatively, if the repair is for a fee, duty and VAT is payable on that amount.
- **Customs warehousing** – goods imported to the UK from outside the EU may be placed in the warehouse without payment of duty or VAT. They can be stored indefinitely. If re-exported or moved to another special procedure, no import duty or VAT need be paid. If imported to the UK, import duty and VAT must be paid.
- **End use** – used for goods imported to the UK from outside the EU for specific uses such as shipwork, aircraft and aircraft parts, processed cheese, fish and prawns. No import duty or VAT is payable on import.
- **Returned goods relief** – for goods previously exported from the UK and then returned in the same state (wear and tear is allowed). When re-imported no duty or VAT is payable.

These are just five of the procedures available to importers right now. Are you and your clients making use of them? If not, why not?

These procedures are available in all EU member states and will remain available in the UK post-Brexit. Advisers and businesses could be planning their use in supply chains to ease a so-called "hard" or "no deal" Brexit when import duties and VAT would become payable for imports from the EU27.

VAT payments and timing

VAT is payable on the import to the EU of goods from outside the EU at the rate of the importing country even for companies and individuals who are not VAT registered. It is possible, by using a deferment account, to delay that payment until the 15th of the month after import, but there are costs associated with such an account. If UK trade with the EU27 becomes the same as trade with, say,

the US or Australia, VAT will apply to all shipments between the UK and the EU states. Currently, only VAT-registered companies must pay VAT on the arrival of goods within the EU and this becomes payable on the 21st of the month after the movement of the goods. So, the timing of VAT payment and the number of companies that have to pay it on import will change.

Another opportunity to smooth the movement of goods post-Brexit is authorised economic operator (AEO) status. This is a business standard and is available as AEO(C), customs simplifications, and AEO(S) safety and security. The designation is awarded by HMRC and is a global standard promoted by the World Customs Organisation.

AEO status is the ultimate insurance policy against the unknowns of Brexit negotiations, but it does take time to achieve. Contrary to what might have been heard, AEO status is available to micro-businesses and SMEs. In fact, it is easier for smaller companies to achieve the standards required than for large companies. This is not because there are different standards; rather, it is because of the requirement for a company to be internally "joined up" and smaller companies find this much easier than their larger colleagues.

Benefits range from quicker and easier access to advantageous customs procedures, faster movement through global ports and airports, fewer customs inspections, less theft, less risk and the ability to bid for work from other AEO companies. Improvements in internal procedures also add to efficiency and cost reduction. Businesses and their advisers should check this out and decide how these benefits will strategically fit with their organisations.

Obtaining knowhow

Do advisers and their clients have the expertise to evaluate the choices, discuss their impact and the rules and benefits? If not, how will this be obtained? Will the business "buy it in", outsource it or enhance employees' know-how with practical training? Now is the time to consider this and act.

Customs work done well is the facilitator of the efficient international supply chain; done badly, it doesn't just put the brakes on, it can stop the flow completely.

Whatever the outcome of Brexit negotiations one thing is certain – there will be change to current processes, systems and procedures. One way to look at it is that the transition period started in June 2016 with the vote to leave the EU – a year of the potential three-year transition period has already passed and even if a further two-year implementation period is confirmed businesses should ask what they have done. What risk assessments, procedural overhauls, gap analysis, tariff classification, duty management schemes, skill assessments, training programmes and research have been undertaken? Perhaps more to the point, what have competitors been doing? Change brings opportunities – Brexit is no different so act now and be prepared to take the lead and gain competitive advantage.



Susan Morley MBA, DMS, FCILT, FIFP(grad), LGSM is Director of Morley Consulting Training Limited. She is a Chartered Fellow of the Institute of Logistics and Transport and Chair of the Customs and International Trade Compliance Forum. Susan represents CILT on the HMRC Joint Customs Consultative Committee (JCCC), the JCCC Customs Change Group, JCCC Brexit Group, the Self-Assessment Group and the Home Office International Freight Group. These are responsible for liaison between industry and the UK government on new and revised legislation. With more than 35 years' practical experience, Susan offers practical and pragmatic training and consultancy in all aspects of export, import, customs and international trade compliance.