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Customs and Excise Basics

This is just a brief document to explain the key principles of communicating, whether electronically or by paper, to HM Revenue and Customs those details relating to warehousing activities.

Customs and Excise are two different beasts.

Customs relates to imported goods, it is the duty paid on goods imported from other countries outside of the EU, it is a political instrument (eg for restricting dumping of goods and for restricting trade with less favoured countries) as well as a fund raising instrument. Duty rates vary by country of origin and by commodity type.

Excise is a country specific tax that relates to certain products - generally non essential but desirable goods like alcohol, tobacco, cars etc.

Additionally there is Value Added Tax - a duty that is more across the board and is value related.

A duty management system can look after customs or excise or both. It has two main benefits, one is to reduce administration and associated mistakes, the second is that payment of duty can often be deferred if HMRC approve the system installed.

Wet Bond

There are two main types of bond. Wet bond is the term used for the 'fags and booze' market - although most wet bonds you come across will be booze only (there are very few cigarette warehouses in the UK because of the risky nature of this business - a 50,000 sq ft cigarette warehouse can hold over 1 billion of stock). The bonds are physical bonds where HMRC physically inspect the warehouse. There is a physical demarcation line between duty free and duty paid, although this no longer needs to be a physical barrier (eg fence) provided that a computerised location system is in place. All stock must be labelled.

A wet bonded warehouse can contain imports, exports and product for local sale.

An excise bond is then agreed with HMRC. HMRC will assess processes and systems (both computerised and physical) and the nature of the warehouse itself - eg high level of security. A customs bond can also be agreed but this is a separate approval process.

Excise duty tends to be based either on the total volume or the amount of alcohol, customs duty can also be based as a percentage of the value, weight based and some even have multiple methods of duty calculation.

Dry Bond

A dry bond is simpler. It relates to most products excluding alcohol and cigarettes. The dry bond relates to imported items although the warehouse can be used for exports, local market etc.

The physical warehouse itself can be approved or the entire operation can be approved.

Bond Management Systems

Bond management systems can look after excise duty, customs duty and VAT. Some bond management systems do not look after excise duty. Excise duty systems tend to be more expensive because of the 'mission critical' nature of their operation.

Excise duty management - A duty management system books stock in and books stock out, a customs duty management system need only book stock out (although would normally do both to make it a more universal system).

The documents produced include:

- W5D - stock moved for 'home use' (D = deferred)
- W8 - stock moved to another bonded warehouse
- AAD - export paperwork

AAD's and W8's should always have signed copies back from the receiving party.

In addition the system produces a W1 document every month, this details inputs, outputs and stock balance by product type.

The system works out all the duty rates, eg for alcohol based on alcohol strength / quantity, for wines based on volume.

An electronic system, EMCS, Electronic Control of Movements of Excise Goods, is now in place that allows an increasing amount of this information to be communicated electronically.

Customs duty management

Customs duty management can work in a similar way to the above.

The documents are:

C88A - stock goes into 'free circulation' (domestic market). The document contains customs duty amount, VAT and other information relating to quotas.

C88E - duty suspension, stock goes elsewhere in Europe or is re-exported.

Note that unlike for excise there is no monthly reporting, stock reporting or reporting of receipts. Customs will inspect the records from time to time so receipt and despatch details must still be kept.

The theory is that these documents are sent, HMRC inspect them and then within 7 days give clearance - stock must not be despatched until this happens.

The 7 day wait is a big issue hence the attraction of CFSP.

CFSP is customs freight simplified procedures and is simply a way of transmitting C88A (free circulation) information electronically to CHIEF, CHIEF is the customs computer. Within a few minutes CHIEF provides confirmation that the goods can be despatched. There is no need to tell CHIEF the duty payable, it can calculate it - however many

organisations prefer to calculate it so that they can get payment from their clients before releasing the goods.

NES, New Export System will do the same thing for C88E's, ie export documentation.

The core information needed for dry bond is commodity code and country of origin. HMRC produce a tariff book annually of several thousand pages that lists commodity codes, country of origin and duty rates. Monthly updates are provided. The Tariff is also available either as a CD ROM or online. Note that duty rates can be seasonal - eg for fruit. The tariff code is 8 digits, and can have a supplementary 2 digit Taric code which indicated sub classification - eg a 1.5 litre bottle of something can have a different duty rate to a half litre bottle of the same.

All this information is being harmonised, in a process call SAD Harmonisation - SAD stands for single administrative document.

There are other messages like SFD (supplementary frontier declaration) and SDI (supplementary declaration import). SFD is, for instance, a summary of a container's contents when it arrives at a port. SDI is a summary of goods subsequently received into a warehouse, re-exported or paid duty on and shipped to the domestic market.

Approval process

There is no such thing as a system that is approved per se. It is the overall operation that is approved. Having said this there are individuals within HMRC who liaise with specific system vendors and will work with the vendor to look at system revisions etc.