BLUJAY SOLUTIONS

TOP 5 CUSTOMS TRAPS & HOW TO BEAT THEM

Introduction

Incorrect preference certificates, imprecise item descriptions, false customs classifications or incomplete address data: in the international traffic of goods that are subject to customs duties, there are a few potential traps that can lead to increased costs and can hamper productivity. Repeated mistakes could alert customs authorities, who will then investigate which software is being used, the related processes and the strategy for error prevention.

When it comes to the commercial bill, there are stumbling blocks that can cause trouble when importing or exporting goods. After all, the data received for the trade bill is one of the key sources for the customs declarations. If information is missing here, it must be obtained another way. It is always worth taking time and effort to complete the data in the trade bill, as this will help not just your own customs department but also those of your external service providers. You should never forget that the declaration of the customs value is as important in legal terms as a tax return and giving false information may have consequences under criminal law. It is also good to work with best-of-breed customs handling software because these can automate customs and compliance processes, saving you time and resources.

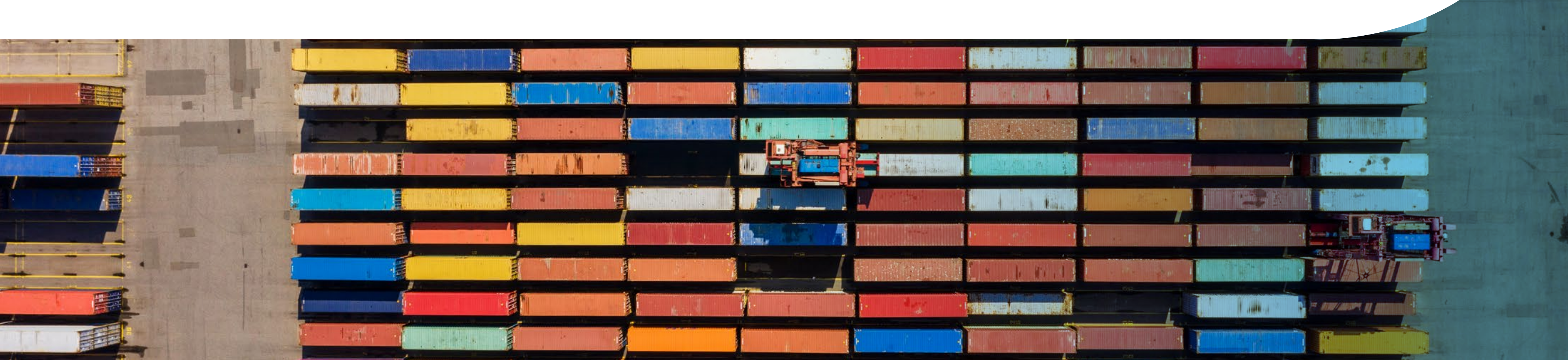
**Electronic Invoicing -OB10 for UK National e-Invoicing Forum*

1. False customs classification

The commercial bill serves as the basis for the customs declaration for both imports and exports, which is why a thorough description of the goods must be included to enable a definitive customs classification. From the importer's perspective, therefore, clear agreements should be made with the supplier. A goods description is sufficient when information for each item is listed, including purpose for use, material and characteristics. Once this information is listed, goods can be attributed to a customs tariff number. It is sensible for the supplier to include the importer's item number in its invoice. If the attribution is notdefinitive, false tariff classifications can lead to subsequent payments or excessive duties payments. A good customs handling solution will support both ends of the supply chain, streamlining communication and enabling information to be shared automatically.

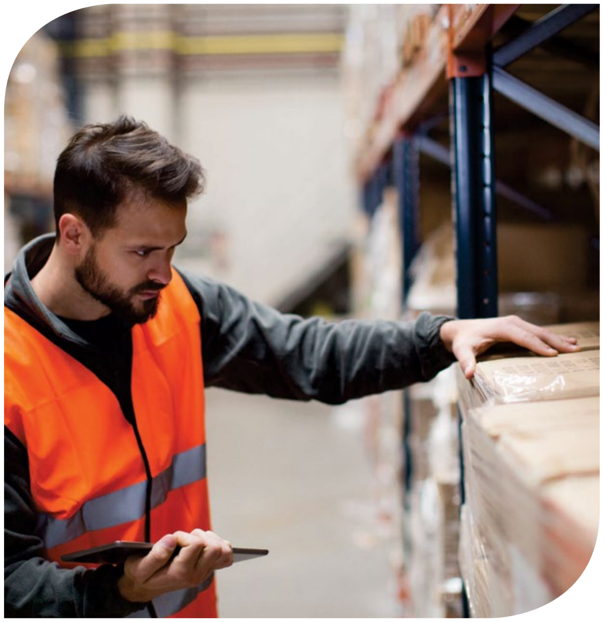
Tip

Create a database within your customs software for all common items, with master data and the customs tariff numbers to be used respectively.This will save you time in the import and export process.



2. Subsequent payments and excessive customs duties

Within the customs classification, a product is classified into the electronic customs tariff and assigned a tariff number. If the goods are declared under the false customs tariff number during import, the customs office will charge only the duties associated with the specified code number. This either results in duty payments being too high or too low. False tariff classifications are particularly tricky because the customs office rarely inspects the goods themselves; the inspection rate is generally about 1.5%. Errors in the customs declarations can therefore stay undiscovered for many years. If the customs office then examines the characteristics of the goods and these are ascertained, this might result in refunds of duties paid in excess if applicable. However, retrospective action can only be enforced for up to three years after the item has been shipped. Yet frequently, this process ends in an order for subsequent payment. It is usually reviewed at the central customs offices to determine if there have been identical circumstances in the past and, if so, this will entail additional subsequent duties assessments.



Tip

Avoid subsequent payments and excessive duty payments by regularly updating your master data.

3. Missing information

Incoterms

Missing invoice information on the agreed terms of delivery is one of the most frequent reasons for questions and delays. The basis for calculating the customs value is often the CIF value (Cost Insurance Freight) up to the EU border. If CIF is agreed, there is usually the decisive customs value, which consists of the goods value including freight costs and insurance. In the case of “EX WORKS”, in contrast, the customs-relevant freight and insurance costs originate from other sources (supply contract), which must then be clarified by the importer. Information such as “freight collect” or “freight prepaid” on the bill of lading or airway bill pertain only to the place of payment and say nothing about the costs that are contained in the invoice price.

Number of items

Customs declarations with missing or false information on the number of items are instantly rejected by the customs authorities. Your own customs software should check the information entered and trigger an alert if it is found to be incorrect. In the process, for example, the indicated number of pieces in combination with the weight serves as the basis for automated plausibility checks. Accordingly, a shipment weight of 1.536 kilograms does not match a quantity of 100 notebooks. To eliminate this simple error, the quantity of items should always be specified on the commercial bill – even if this is not always required.

Total price

To be able to check the completeness of multi-page documents, it is important that the total price is shown on the invoice. Since the customs value usually has to be converted into euros, it is also a requirement to specify the currency in which the invoice was issued.

Customs value for goods delivered for free

A customs value must also be specified for goods that are delivered for free. Since no transaction value is available for these items, alternative methods for the customs value calculation must be used. It is necessary to check if a value of equivalent items is indicated on the invoice or if the same goods have been imported previously. The methods of the customs value calculation are subject to firm rules. Specifying fictional goods values is not permitted.

4. Incorrect certificates of origin

It is possible for certificates of origin to be declared invalid after the import because the authorities doubt the correctness of the goods origin. Without a valid certificate of origin, the origin of the goods is not proven. This entails a subsequent assessment of duties and importation VAT.

However, the correct origin of goods in terms of customs regulations is often hard to assess. Even though the origin of the goods is initially determined by the origin of the components used in a product, it is conclusively determined by the regulations of the respective country of import. So, depending on the country of import, different certificates of origin may be required for the same product and different rules for the re-export may come into consideration. The best-of-breed customs management software solutions will harmonise the customs regimes of multiple countries into a single output.

An incorrect certificate of origin may even result in a contributory act under criminal law in tax fraud committed by the buyer, negligent tax evasion or minor tax fraud. Negligent tax evasion or minor tax fraud is punished as an administrative offence with a fine, which can be ordered against both the person who signed the preference certificate, as well as this person's supervisor.

Serious cases that must be regarded as illegal criminal acts are punished by court verdict as criminal offences, with fines or prison sentences of up to five years.

The declarations covering the origin of goods under preference regulations are evaluated under civil law as being an "assured characteristic". If the specification of the origin is incorrect and the buyer thereby suffers a loss, the exporter may be liable for compensation. If the buyer has to pay the full customs tariff that applies in the country of import for the goods from third countries, they can file recourse against the exporter for this under certain circumstances. The financial loss is further compounded by the degradation of the business relationship with the buyer.

Tip

Thoroughly check and question certificates of origin.

5. Compliance

According to the Union Customs Code (UCC), all participants in the export of any goods are deemed duty debtors for as long as the import information has not been submitted, or until the goods leave the EU again. False preference certificates, therefore, and indirect participation in tax evasion or minor tax fraud, can be considered under criminal law or regulations that can lead to administrative fines. “Tax evasion as accomplice” is prosecuted in consideration of the interest pursued in the act, the extent of the contribution to the act and the objective capacity as primary offender.

Tip

When supply chains become more complex, you can become an accomplice more quickly than you would think. Because of this, automated plausibility checks are essential to help ensure you remain complaint with local customs authorities.

Conclusion

Customs traps are lurking in many different forms when importing or exporting goods, and sometimes these issues become apparent only after a number of months and years. Therefore, check your processes for their sustainability – a best-of-breed, multi-country customs management software solution will help you to ensure that you comply with customs and security regulations around the world and remain compliant for years to come.

Customs Management

BLUJAY SOLUTIONS

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