



## Briefing paper: Inward Processing (IP)

**Inward Processing (previously known as Inward Processing Relief or IPR) allows for the relief from customs duty and import VAT on the importation of non-EU goods that are processed\* and then exported outside the EU. If the goods are released for free circulation in the EU then they might be liable for a lower rate of customs duty and import VAT. Excise duty may also be suspended when goods are entered into IP.**

\* *Processing includes repacking, sorting, repair, destruction or more complicated manufacture.*

### Customs duty liability

The cornerstones of Customs:

- Tariff classification
- Customs valuation
- Origin

are used to determine customs duty liability. The adherence to the cornerstones and to the customs processes and procedures constitute customs compliance.

### Reducing your customs duty liability

It is possible, dependant on the economic activity in question, to reduce the customs duty liability through the application, authorisation and use of a number of Customs Special Procedures (CSP).

### Categories of Customs Special Procedures

#### Processing

- Inward Processing (IP)
- Outward Processing (OP)

#### Specific Use

- Temporary Admission (TA)
- End Use (EnU)

#### Transit

- External
- Internal

#### Storage

- Customs Warehousing (CW)
- Free Zones

### Authorisation

A business must be authorised by HMRC to use IP. They can apply for either:

#### I. Full authorisation

For use by a regular user of IP, requiring a full application, which should be completed at least one

month before importing.

#### II. Authorisation by declaration

- Suited to businesses importing goods occasionally to IP and carrying out all processing in the UK, and not more than 3 times in a calendar year.
- Application made by submission of the customs declaration.
- Businesses cannot use this to import goods listed under Chapter 93 (*Arms and ammunition; parts and accessories thereof*) and Chapter 97 (*Works of art, collectors' pieces and antiques*) or over £500,000 in value.

#### Authorisation for more than one member state

If goods are to be processed in more than one EU member state, by one or more businesses, a business needs to apply for authorisation, at least 2 months before importing.

#### Retrospective authorisation

- Businesses can apply for retrospective authorisation up to a year after the import or receipt of the goods, but these requests must be exceptional.
- A business can only apply for retrospective authorisation once in a 3-year period.

Authorisations can be valid for a period of up to 5 years from the date of the acceptance of the application. For certain, agricultural goods the period can be up to 3 years.

The conditions for the processing of the goods and how they may be moved under authorisation will be set out in the authorisation letter. As a special procedure authorisation holder, the business is ultimately responsible for ensuring that all the

conditions of the procedure are met. The business is also responsible for the customs duty and associated charges on all goods entered to the authorisation. This is so whether or not the business owns them, until they are put to an eligible method of disposal.

### Guarantee

An authorisation for IP cannot be issued until an appropriate guarantee is in place, the purpose of which is to secure duties suspended on goods imported under an IP authorisation.

There are two types of guarantee:

- **Individual Guarantee**

Covers an individual C88 [Single Administrative Document or SAD] customs entry or operation.

- **Customs Comprehensive Guarantee (CCG)**

Covers all C88s entered to the procedure, covering the potential and/or existing customs debt.

### Throughput period

The time you will need to process the goods, from the date of import or receipt of the goods to the date that you dispose of them.

In the instance where you are using an authorisation by declaration, the standard throughput period is 6 months. Should you need a longer period you would need to write to the National Import Relief Unit (NIRU) when you make your import declaration.

### Processed products

If there are multiple products resulting from your processing operations, you need to distinguish between your main products and secondary products. Anything that is produced, as a necessary by-product of making your main product is usually considered a secondary product.

### Rate of yield

Is a measure of how many IP imports you need to produce your processed products. If your application covers more than one processing operation, you will have to give the rate of yield for each one separately.

### The economic test

This test applies to specific goods, in which instance you will need to provide evidence showing why you cannot use EU-produced goods instead.

### Record keeping

You must keep records of all goods you enter into IP for at least 4 years after their export or disposal.

### Equivalence

The equivalence procedure lets you use identical free circulation goods instead of IP goods for processing and re-export. This means you can hold both IP and free circulation goods in common stock without having to distinguish which specific goods have been entered into IP.

### Moving Inward Processing goods

You can move goods entered into IP between IP authorisation holders, as long as the authorisation holder receiving the goods has approval to do so.

Your records must identify the location of the goods at all times. If you transfer your rights and obligations (TORO) this does not discharge your liability. You must get approval from your HMRC authorising office before you use TORO.

### Discharge of the liability

The discharge of IP is regarded as complete when all conditions for use of the procedure have been complied with. Also, that the processed products or those in an unaltered state have been exported from the EU, or released for free circulation in the EU, or undergone some other form of discharge.

### Bill of Discharge

The periodic IP return that accounts for all imported goods to the procedure and discharges from the procedure. It must be lodged with HMRC within the specified timeframe.

### Time to act

If you are importing or planning to import non-EU goods which you intend to process (including repackaging, sorting, repairing, or full manufacturing), and are doing so without claiming relief.

Our specialist advisers can assist you with all aspects of IP. Please contact one of our Indirect Tax specialists for further information:

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