



Briefing paper: Outward Processing (OP)

Outward Processing (previously known as Outward Processing Relief or OPR) allows for the temporary export of EU goods to be processed in a non-EU country. Upon re-entry to free circulation in the EU, the customs duty is only payable on the value added in the non-EU country. This is considered a partial relief of the customs duty.

OP also allows for faulty goods to be returned to a non-EU country for repair, or for replacement with equivalent goods under the Standard Exchange System (SES). If the goods are only subject to Import VAT, OP cannot be used.

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

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

Specific Use

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

Transit

- External
- Internal

Storage

- Customs Warehousing (CW)
- Free Zones

Authorisation

An authorisation specifies the measures to establish either of the following:

- that the processed goods have resulted from its processing under a processing procedure, or

- that the conditions for using the equivalent goods or the Standard Exchange System (SES) are met.

The authorisation specifies the period, not exceeding 6-months, within which the EU goods, which are replaced by equivalent goods, shall be placed under Outward Processing.

At the request of the holder of the authorisation, the period of 6-months may be extended even after its expiry, provided that the total period does not exceed one year.

Guarantee

In the instance of the prior importation of processed goods, a guarantee needs to be provided to cover the amount of the customs duty that would be payable should the replaced EU goods not be placed under Outward Processing.

Equivalent goods

Equivalent goods shall have the same 8-digit Combined Nomenclature Code (CN), the same commercial quality, and the same technical characteristics as the goods they are replacing.

Standard Exchange System (SES)

Imported replacement goods may replace processed goods when:

- The processing operation involves repair of defective EU goods, other than agricultural goods.
- Replacement products must have the same 8-digit CN, the same commercial quality and the same technical characteristics as the defective goods.
- If the defective goods have been used, then the replacement goods must also be used unless the

replacement product has been supplied free of charge due to a contractual or statutory obligation arising from a guarantee or due to a manufacturing defect.

The use of SES must be approved by HMRC.

Goods repaired free of charge

Total relief from customs duty could be granted when HMRC is satisfied that the goods have been repaired free of charge. Such is either due to a contractual or statutory obligation arising from a guarantee, or due to a manufacturing defect.

Prior import of processed products

Replacement products may be imported prior to the defective goods being exported as long as approval has been given by HMRC.

A guarantee must be provided covering the amount of the customs duty that would have been due if the defective goods are not exported.

Defective goods must be exported within 2 months from the importation of the replacement goods. HMRC may grant an extension to the 2-month period upon a justified application by the holder of the authorisation.

Repair

Where the procedure is requested for repair, the temporary export goods must be capable of being repaired and the procedure must not be used to improve the technical performance of the goods.

Guarantee or warranty

In the instance of claiming total relief from customs duty as the exported goods have been repaired or replaced free of charge under a guarantee or warranty, a copy of the guarantee or warranty document needs to be provided. This is to prove that no charge was, or will be, made for the repair or replacement.

Service contracts or 'bought' warranties

In the instance where an arrangement has been made with a repairer outside the EU, for which a regular service charge is incurred for repair, the service charge is regarded as part of the value of the goods when they were originally supplied, and are therefore liable to customs duty. Similarly, an extended warranty for which a 'one off' payment is made is liable to customs duty as the charge for this type of warranty is regarded

as part of the original price of the goods.

Exported goods qualifying for End Use

If the exported goods are of a type that could qualify for End Use on release to free circulation in the EU and the process carried out on them was the same as the process which would qualify them for End Use relief, if it had been carried out in the EU, relief is restricted to the reduced rate of customs duty which would apply to the goods if they were imported under the End Use arrangements.

Claiming the preference rate

In most cases, you will pay less customs duty by declaring eligible products under the preference arrangements, but if you choose not to claim the preference rate on the compensating products. You can then claim relief at the full rate on the exported goods, even if a preference rate is available.

In some circumstances, if the duty rate on the exported goods is higher than the duty rate on the compensating products, this may provide a greater amount of duty relief.

Exporting or importing gold and jewellery

If you intend to use Outward Processing for exporting and re-importing gold and jewellery, you will require an authorisation for Outward Processing. You should send the gold/jewellery to an Assay Office prior to export in order to identify the carat and quantity of gold being exported.

Time to act

If you are temporarily exporting EU goods abroad to be processed or repaired without claiming relief on the return of the goods to EU free circulation.

The temporary exports could also be faulty goods that are returned to a non-EU member state for repair, or for replacement with equivalent goods under the SES. If the goods are, only subject to VAT, you cannot use Outward Processing.

Please contact one of our Indirect Tax specialists for further information:

Karen Robb
Partner
T +44 (0) 207 728 2556
E Karen.Robb@uk.gt.com

Riaan de Lange
Manager
T +44 (0) 207 728 2041
E Riaan.V.De.Lange@uk.gt.com