



Briefing paper: Customs Valuation

Customs value = transaction value = “price paid or payable” + adjustments - deductions

Customs valuation is the process to determine the value of goods when entered under various customs procedures, such as import, export, warehousing and processing.

The customs value is based on the World Trade Organization (WTO) Valuation Agreement which specify six methods, which need to be applied in a prescribed order, to determine the customs value.

The primary method, the “transaction value”, applies first. Should it fail to determine a customs value of the goods, then the five secondary methods need be considered. Essentially it’s the pursuit to determine the “price actually paid or payable” for the goods.

Customs duty liability

The cornerstones of Customs:

- Customs valuation
- Tariff classification
- 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

WTO Valuation Agreement, whilst the World Customs Organization (WCO) Technical Committee on Valuation plays a regulatory role.

The intention of customs valuation is to achieve two principal objectives:

- A fiscal objective - To ensure the precise levying of customs duties, and other taxes.
- An Economic objective – To promote international trade.

It is an imperative for any business engaged in international trade to establish the correct value of their goods, the “price actually paid or payable”. This is a real price which is actually made (positive notion) and not a normal price.

There are six methods, the primary method and five secondary methods, which need to be employed to establish the value on which customs duty and import VAT is calculated.

Types of Customs duties

There are essentially three types of duties:

- **Ad valorem** - percentage of the value of the goods.
- **Specific** - imposed on the unit of measure.
- **Compound** - A combination of both an ad valorem rate of duty and a specific rate of duty.

Importantly, customs valuation only applies to goods that are subject to an *ad valorem* rate of duty.

Customs Valuation methods

The Customs value is derived by applying the Customs valuation methods, listed below, in a sequential order.

On request to HMRC the order of methods 4 and 5 can

Customs Valuation

The customs valuation of goods is governed by the

be reversed.

- Method 1 - The transaction value
- Method 2 - Value of identical goods
- Method 3 - Value of similar goods
- Method 4 - The deductive method
- Method 5 - The computed value
- Method 6 - The ‘fall-back’ method

Primary method

The transaction value is the “*price actually paid or payable*” by the buyer to the seller for the goods when sold for export to the EU, adjusted in accordance with specific rules.

The “*price actually paid or payable*” is the total payment made or to be made by the buyer to, or for, the benefit of the seller for the imported goods. It includes all payments made as a condition of sale of the imported goods by the buyer to the seller, or by the buyer to a third party to satisfy an obligation of the seller.

Conditions for the use of the primary method are that:

- There are no restrictions for disposing or using the goods by the buyer other than certain acceptable restrictions.
- The sale or price does not depend on conditions for which the value of the goods cannot be determined.
- The seller will not benefit from proceeds of subsequent reselling, disposal or use by the buyer unless an appropriate adjustment can be made.
- The buyer and seller are not related, or, if they are, the price has not been influenced by the relationship.

Secondary methods

In the instance where there is no transaction value (for instance there is no sale), or where the transaction value is not acceptable, five alternative methods of customs valuation need be applied in the prescribed hierarchical order.

Method 2 - Identical goods

The transaction value is calculated for goods which are:

- the same in all respects including physical characteristics, quality, and reputation;
- produced in the same country as the goods being valued; and
- produced by the producer of the goods being valued.

Method 3 - Similar goods

The transaction value is calculated for goods which:

- closely resemble the goods being valued in terms of component materials and characteristics;
- are capable of performing the same functions and are commercially interchangeable with the goods being valued;
- are produced in the same country as and by the producer of the goods being valued.

Method 4 - Deductive method

The Customs value is calculated on the basis of the unit price at which the imported goods, or identical or similar goods, are sold in the EU to an unrelated buyer in the greatest aggregate quantity.

As a consequence of the starting point being the sales value in the country of importation, various deductions, mainly in the EU, are necessary to reduce the price to the relevant Customs value.

Method 5 - Computed value

The computed value is considered the most difficult method as the Customs value is determined on the basis of:

- The costs or value of material and production costs
- Plus: Profit and general expenses equal to those usually reflected in the sale of goods of the same class or kind
- Plus: Cost of transport, loading, handling and insurance up to the point of entry into the EU.

Method 6 – ‘Fall-back’ method

The method is used when the previous methods could not be applied. The previous methods are then again applied, with a reasonable degree of flexibility

Time to act

If you are involved in international trade, importing, exporting, warehousing and processing under customs control you need to ensure that you determine and apply the correct amount of customs value for the goods.

Our specialist advisers can assist you with all aspects of Customs valuation.

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