

CHAPTER 3

TYPES OF DUTIES

3.1 Introduction

In this chapter you will learn about the different types of duties that could be applied to imported goods. **Some of these duties are EU wide**, which means no matter which of the EU member states you import your goods into - the same rates of duties will be payable. Others are **specific to the member state where the goods are imported**. We will only consider the UK, when we take a look at these types of duties.

3.2 Ad valorem Customs duties

The most common type of duty that **applies throughout the EU** is the ad valorem Customs duty. This means that a **percentage** is given for the particular goods, **which is then applied to the value of the goods to find the amount of duty**.

The percentages are found in the **Tariff** and **depend upon the commodity code** of the goods. The percentage needs to be applied to a value and you will learn more about valuing goods in the chapters on valuation. For the sake of simplicity at the moment, the percentage is applied to something called the **CIF** value. This stands for the **Cost of the goods**, plus **Insurance** and **Freight** charges.

$$\% \times \text{CIF} = \text{duty}$$

3.3 Specific Customs duties

Another type of Customs duty that could be applied to goods is a **specific duty**. Again this is **EU wide**. Specific duties do not operate as a percentage, but are **applied on a quantity of the goods**. This quantity could be by reference to the **weight** of the goods or its **volume** etc. Specific duties can be in addition to ad valorem duties or instead of them. Again the Tariff details when they apply.

3.4 Anti-dumping duties (ADD)

Another type of EU wide duty is the **anti-dumping duty** or **ADD** for short. You will learn more about anti-dumping duties in the next chapter. Briefly, they are an **extra levy**, in addition to any ad valorem or specific duties already due, which aim to **stop the EU being flooded by cheap imports**, and are intended to **protect EU producers** of the same products.

3.5 CAP levies

The final type of EU wide duties are something called the '**Common Agricultural Policy**' levies or **CAP** levies for short. These mainly apply to goods in the **agricultural sector**, and could be **percentage** or **specific duties**. You will learn more about the Common Agricultural Policy in a later chapter.

3.6 Other duties

We need to consider duties that are dependant upon the member state the goods are imported into. Remember, we are only looking at things from the UK's perspective.

These are:

- **Excise duty**, which apply to imports of products containing, amongst other things, alcohol or tobacco; and
- **Import VAT**, which is classed as a 'duty'.

Member states set their own rates of excise duty and VAT.

Import VAT is charged at the same rates that would apply if the goods had been supplied in the domestic market. Therefore, in the UK, import VAT could be charged at **0%** on products such as non luxury food stuffs, the standard rate of **17½%**, or the reduced rate of **5%** on products like child safety car seats.

As mentioned already, **anti-dumping duties** and **CAP levies** will be looked at in more detail in later chapters. Therefore, we will just consider **ad valorem Customs duties**, **specific Customs duties** and **import VAT** in the rest of this chapter.

3.7 Ad valorem Customs duties

Ad valorem duties are the most common type of Customs duty.

Illustration 1

Imagine that you import some textile products into the UK and they are charged with a rate of 12%. This 12% has to be applied to a value to find the actual duty due. The percentage is applied to the **CIF** value of the goods, which stands for the **Cost** of the goods, plus **Insurance** and **Freight** charges.

$$12\% \times \text{CIF} = \text{duty}$$

Insurance and freight are included **up to the point of introduction into the EU**. This might not necessarily be the value that appears on the invoice!

For instance, the seller of the goods might not charge insurance and freight to the customer, as the customer arranges their own. In order to find out exactly what the invoice includes, we need to look at the terms of trade agreed between the seller and the buyer.

3.8 Terms of trade

Terms of trade are agreed between the buyer and seller and are usually detailed on the invoice. They are usually denoted by **three capital letters**, called "**Incoterms**". There are many Incoterms, each of which denotes different terms of trade. We've already come across one of them - **CIF**, and this is the one that forms our value for customs duty purposes. We will cover the other more common Incoterms.

3.9 FOB

Imagine we have bought our goods on **FOB** terms, which stands for "**Free on Board**". **FOB** means that the **seller is not responsible for any risks associated with the goods, or freight, after he has loaded the goods onto the vessel/aircraft** that will transport them to us in the UK.

Therefore, the buyer needs to arrange his own insurance and freight from that point onwards. **The insurance and freight incurred by the buyer must then be added to the cost of the goods for customs duty purposes, to arrive at a CIF value.**

3.10 CFR

Another term is **CFR**. This stands for "**Cost and Freight**" only. This means that the invoice includes the cost of the goods and freight, but **insurance is arranged separately by the purchaser. To arrive at a CIF value for customs duty purposes, the cost of insurance must be added to the invoice total.**

3.11 DDP

Another term of trade is **DDP** - this stands for "**Delivered Duty Paid**". Where goods are delivered duty paid, the seller is including the **cost of the goods, freight, insurance (i.e. CIF) and the duty** that will be due when the goods are imported, on the invoice for the goods.

To work out the CIF value, we need to take out the duty itself that was included in the invoice total. Therefore, if goods are sold on DDP terms, for £10,000, and the duty rate is 8%, to find the CIF value, you need to do the following calculation.

	£	
CIF	?	100%
Duty	?	8%
DDP	<u>£10,000</u>	<u>108%</u>

The total invoice price is £10,000. This figure is the total of the CIF value of the goods plus the duty. Therefore, the invoice is made up of the CIF value equivalent to 100%, plus the duty of 8% so the £10,000 equals 108%.

	£		
CIF	9,259.26	100%	↑ $\frac{100}{108} \times \text{£}10,000$
Duty	740.74	8%	
DDP	£10,000.00	108%	

To find the CIF value, if we take 100, divide it by the 108 and times it by the £10,000 total invoice price; we arrive at a CIF value of £9,259.26. The duty should be the missing figure, so if we take the £10,000 and deduct the CIF value we arrive at £740.74. To check that we have calculated the duty correctly, if we take 8% of the CIF value of £9,259.26 we should arrive at the £740.74.

3.12 Ex-Works (EXW)

The final term of trade that we are going to look at is Ex-Works. This means that the seller has only included the **cost of the goods** on the invoice, i.e. the price of the goods as they leave the seller's premises. The buyer is responsible for delivery and insurance from the seller's premises. **For duty purposes, the insurance and freight to the introduction of the EU must be added in.**

Example 1

You need to choose whether the types of duties listed are EU wide (i.e. the same rate applies no matter which member state the goods are imported into) or whether they are member state specific, i.e. each member state sets their own rates.

<i>Type of Duty</i>	<i>EU wide</i>	<i>Member State specific</i>
Ad valorem customs duty		
Import VAT		
Excise Duty		
Anti Dumping Duty		
Specific duties		
CAP levies		

3.13 Specific duties

The second type of customs duty that we mentioned is the 'specific duty'. Specific duties **can be additional** or **instead of** ad valorem duties and are quite common in the **agricultural sector**. Specific duties apply to a **quantity** of product, e.g. by **weight** or **volume** etc. Therefore, the value of the goods is irrelevant in calculating these duties.

Illustration 2

You are importing cheese fondues into the UK and they have a duty of 35 Euros per 100 kg/net. You import 650 kilos of them.

$$(650/100) \times 35 = 227.5 \text{ €}$$

$$227.5/1.5 = \text{£}151.67$$

To calculate the duty take the 650 kilos, divide it by 100 kilos and times it by the 35 Euros. This gives us $227\frac{1}{2}$ Euros on the cheese fondues. If we're going to pay our duty in sterling as opposed to Euros, the Euros then need to be converted at Customs official rate of exchange, which we will say is 1.5. Therefore, if we divide the 227.5 by 1.5 we arrive at a sterling duty amount of £151.67p.

3.14 Import VAT

Import VAT is the last duty that we are going to look at in this chapter. We've already mentioned that **Import VAT is classed as a "duty"** of Customs. This can be seen from **Section 16 of VATA 1994**. Remember that rates of VAT differ according to which member state you import the goods into.

[s. 16 VATA
1994](#)

Illustration 3

Continuing with illustration 2...

We have already established that the value for duty purposes is the CIF value, but remember this is not needed to calculate the duty if specific duties apply to the goods. The **CIF value is, however, needed to calculate import VAT**.

The rules on calculating import VAT are contained in **Section 21 of VATA 1994**. Section 21 says that the **CIF value is the starting point** and to it we need to **add in the Customs Duty** charged on the goods, **any buying commissions** that have been paid by the UK company to source the goods from abroad, and **freight incurred on the goods up to the first destination in the UK**.

[s. 21 VATA
1994](#)

We will imagine that our cheese fondues are sold on CIF terms for £1,250. Freight to the premises of the importer is a further £100 and there isn't a buying commission. To calculate the value on which import VAT will be due, we perform the following calculation:

	£
CIF	1,250.00
Customs Duty	151.67
Freight to first destination in UK	100.00
Buying commission	<u>0.00</u>
	<u>£1,501.67</u>

We have a value for import VAT of £1,501.67p. All that is left is to work out the actual amount of import VAT and this is where it is relatively easy. Cheese fondues are zero rated in the UK, so the amount of VAT is zero! Import VAT mirrors normal UK VAT rules. Therefore, if the product falls within **Schedule 8 of VATA 1994**, i.e. in this case a non luxury foodstuff it will benefit from zero rating.

[Sch 8 VATA 1994](#)

However, imagine the cheese fondues did not benefit from zero rating and were liable to 17.5% VAT. In this case, £262.79 of import VAT would be due.

Finally don't forget that Import VAT is just the same as normal input VAT; the importer can reclaim it on his VAT return in the usual way.

Example 2

Calculate the customs duty and import VAT due.

Duty rate	5%
VAT	Standard rated
Invoice Total	£6,000
Terms of Trade	CIF

Example 3

Calculate the customs duty and import VAT to the nearest penny.

Duty rate	6% + 20€ per 100kg (1.5€ to £1)
VAT	Standard rated
Invoice total	£4,000
Weight	250kg
Terms of Trade	FOB
Freight & Insurance	£500

Answer 1

<i>Type of Duty</i>	<i>EU wide</i>	<i>Member State specific</i>
Ad valorem customs duty	X	
Import VAT		X
Excise Duty		X
Anti Dumping Duty	X	
Customs duties	X	
CAP levies	X	

Answer 2

The correct amount of customs duty is £300. The amount of import VAT is £1,102.50. This is found by taking the CIF value of £6,000, adding to it the customs duty we have just calculated of £300 and multiplying the total (i.e. £6,300) by 17.5%.

Answer 3

The amount of customs duty is £303.33.

To do this we take the invoice total of £4,000 and add to it the £500 incurred on freight and insurance. We do this because "free on board" means that the invoice does not include freight and insurance - these are the responsibility of the buyer.

We can now calculate the ad valorem duty, by multiplying the 6% by the £4,500, which gives us £270. The specific duty needs calculating now. We are told that 20 euros per 100kg is due. Our product weighs 250kg, so 2.5×20 euros gives us 50 euros. To convert this into sterling we were told that there were 1.5 euros to the £. If we take our 50 euros and divide it by 1.5 we end up with £33.33. Our duty in total is therefore £303.33.

To find the import VAT, we take our CIF value of £4,500 add to it the total customs duty of £303.33, and then multiply the lot by 17.5%. This gives us £840.58.