

## CHAPTER 11

### CUSTOMS WAREHOUSING

#### 11.1 Introduction

In this chapter we are going to look at customs warehouses. Customs warehouses are a 'procedure' that enables an importer to **postpone customs duty and import VAT**. In some circumstances they can provide complete customs duty and VAT relief.

The principle behind a warehouse is that it is either a physical place or inventory system, i.e. a virtual warehouse, located in the EU that is deemed to be outside the EU. This means that for customs duty and import VAT purposes any goods that are situated in the warehouse are **not in free circulation in the EU**.

Goods imported into a customs warehouse do not have customs duty or import VAT paid on them at the time of import. A C88 still needs to be presented but the Customs Procedure Code or CPC will tell Customs that the goods are being entered into a duty suspension procedure. The **duty and VAT only becomes due when the goods are removed from the warehouse to free circulation**. Another C88 is presented at this point to declare the goods to free circulation.

#### 11.2 Legislation

The legislation governing warehouses is **Articles 98-113** of the Code and **Articles 496-535** of the Implementing Regs.

[Art 98-113  
2913/92](#)

[Art 496-535  
2454/93](#)

#### 11.3 Types of warehouse

There are different types of warehouses that can be operated, and these are detailed in Article 99 of the Code and Article 525 of the Implementing Regs. Warehouses can either be **public** where they are operated by a warehouse keeper who generally **stores goods for anyone**, or **private**, where the warehouse keeper usually operates it for **storage of his own goods** only.

In the UK the following types are available.

- **Type A** warehousing is a **public** warehouse and
- **D, E & C** are types of **private** warehouses.

We will concentrate on the private types of warehouses.

#### 11.4 Private warehouses

**Type D** can either be a **physical** or **virtual** warehouse. **Type E** is a **virtual** warehouse, and **Type C** is a **physical** warehouse.

**Type D** warehousing differs to types E and C in that the **duty is calculated according to the classification, value and quantity of the goods at the time the goods entered the warehouse.** For all other warehouses, we look at the factors that apply at the time of removal from the warehouse.

The same location cannot be authorised for more than one of these types. In addition, retail **sales cannot take place in a customs warehouse.** This means that generally a shop cannot be authorised as a warehouse.

[Art 526\(2\)  
2454/93](#)

Other sales may take place in a warehouse and they generally incur no VAT. However, Customs do have the power to deny VAT-free trading in a warehouse if it appears that avoidance would otherwise occur.

[SI 2005/2231](#)

### Example 1

You have to put an X in the boxes that correctly describe each warehouse. (As a hint you should have at least two crosses for each warehouse type.)

	Public	Private	Physical	Virtual
Type A				
Type C				
Type D				
Type E				

### 11.5 Authorisations

In order to become authorised, the importer generally needs to **apply to Customs at least 2 months** before wishing to operate a warehouse.

Authorisations **cannot be granted retrospectively.** If Customs accept or reject the application, they must do so within **60 days.** Application has to be made on a form corresponding to that in Annex 67. In the UK the form is **C1410.**

[Art 506  
Annex 67  
2454/93](#)

### 11.6 Simple operations

The **principal purpose** of a warehouse is **storage**, so only **simple operations** can be carried out on the goods, whilst they remain in the warehouse. These operations are called "**usual forms of handling**", and are referred to in Article 109 of the Code and Annex 72 of the Implementing Regs. This phrase has already been covered in the IPR chapter. However to jog your memory, the types of operations include: simple cleaning, weighing, repackaging etc.

[Art 109  
2913/92](#)

[Annex 72  
2454/93](#)

If goods undergo these simple operations, and the goods are then released to free circulation, the value for duty can ignore any value added by these forms of handling.

[Art 112\(2\)  
2913/92](#)

### Illustration 1

A teddy bear is imported into a customs warehouse and costs £5. The teddy is then repackaged into a fancy box for retail sale and is now worth £6 on release. The importer can use the £5 value when calculating the duty.

## 11.7 Complicated processes

If a person wants to carry out more complicated processes, they can do this by **entering the goods to IPR** from the customs warehousing regime. This can be carried out on the premises of the warehouse in accordance with Article 106(1)(b) of the Code and Article 535 of the Implementing Regs.

[Art 106\(1\)\(b\) 2913/92](#)

[Art 535 2454/93](#)

### Illustration 2

You are authorised to operate a customs warehouse and you are also authorised to operate IPR suspension. You import sheets of metal into your Customs warehouse, and wish to manufacture the sheets of metal into metal tacks. This procedure is not simple and would not fall within Annex 72 as a '**usual form of handling**'.

Therefore, using your IPR authorisation the sheets of metal can be released to IPR, **without any customs duty and import VAT becoming due**. They can then be processed on the premises of the customs warehouse, and the finished product exported, without any duty ever becoming payable.

## 11.8 Advantages of a Customs Warehouse

Authorisations are granted **indefinitely** and the goods can remain in the warehouse for an **indefinite period of time**. This gives obvious cash flow advantages, because if you never release the goods to free circulation, but simply **re-export them, the duty and import VAT will never become due**.

[Art 108 2913/92](#)

Secondly, **Community goods can be stored on the premises**, and if they are equivalent, i.e. they share the **same eight digit classification code**, have the **same technical characteristics**, and the **same commercial qualities** as the imported goods, they can be used in **common storage**. This will negate the need to keep items separate and track exactly where they came from.

### Illustration 3

If four clocks are imported and four of the same types of clocks were purchased from a UK supplier then they can be stored together. It does not matter which of the clocks are physically picked to be exported and which are released to free circulation.

Therefore, if we happen to export the four clocks that were produced in the UK we can match the exports to the four imported clocks and will not pay duty or import VAT on the imported clocks.

If we happen to release the four imported clocks to free circulation in the EU, we can match them to the four clocks that were produced in the UK. All that matters is that four clocks were imported and four clocks were exported. If you only exported three clocks and the rest were released to free circulation, you would have to pay duty on one of the imported clocks.

Another advantage of a customs warehouse is that if you do release imported products to free circulation, then if they have been in the warehouse for some time, the **duty rate is calculated at the time the goods leave the warehouse. Duty rates tend to fall each year**, therefore, we could end up paying a lower rate of duty.

We have already said that whilst goods remain in the warehouse they can **undergo usual forms of handling**. So if we want to repackage our clocks we do not need to release them to IPR, but can carry out the operation in the warehouse. We can then release the goods to the EU market, and pay duty on the value of them when they entered the warehouse.

Another advantage of having a customs warehouse is that **goods can be transferred between customs warehouses, without being released to free circulation**. Therefore, you could sell the clocks to another person and if they operate a customs warehouse they can be transferred from yours to theirs. The **duty and VAT will only be due when your buyer releases them to free circulation. The buyer will pay the duty and VAT due.**

[Art 111  
2913/92](#)

Remember, that a customs warehouse is deemed to be outside the EU. Therefore, if your particular goods require an **import licence** and you have not received it by the time your goods arrive at the port; they can still be brought into the customs warehouse. The **import licence only needs to be presented when the goods are released to free circulation.**

### Example 2

You need to complete the missing words in the sentences.

A type ..... warehouse uses the value applicable when the goods entered the warehouse.

Customs have ..... days to accept or reject all applications to operate a Customs warehouse.

A Customs warehouse is mainly used for the storage of goods. However, ..... of ..... can be carried out on goods.

If a trader wants to carry out complicated processes on the goods, it would need to be authorised for .....

Goods can remain in a warehouse for an ..... period of time.

### 11.9 Disadvantages of a Customs Warehouse

The **authorisation procedure** and **record keeping requirements** can be quite **onerous**. The warehouse keeper must keep records showing the goods that have been entered to the warehouse, any usual forms of handling undertaken on the goods, and details of the removal of the goods.

In addition, a **bespoke computer system** is often needed to run a warehouse and that can be quite **costly** to buy. Customs will also want to come and audit the customs warehouse records, to make sure that no duty or import VAT is being lost.

Another point that needs bearing in mind before someone becomes authorised to use a warehouse, is that Customs import and export procedures are becoming more simplified each year. It is now possible to import and export goods by providing electronic declarations and The '**Customs Freight Simplified Procedures**' or **CFSP** enable an importer to obtain up to **20 days duty free storage** after the goods have been imported, without the need for a customs warehouse. Some traders are finding that warehouses no longer justify the expense. A careful cost benefit analysis should be carried out by someone who is thinking of having one.

One final point is that not all types of goods can be stored in a Customs warehouse.

The following is an example of goods that cannot be stored in a Customs warehouse:

- Certain meat products and other goods subject to veterinary checks after importation;
- most non-community goods subject to restrictions - unless necessary supporting documentation has been presented; and
- goods liable to excise duty (unless the warehouse is also authorised as an excise warehouse or the excise duty is paid before the goods enter the warehouse).

**Answer 1**

	Public	Private	Physical	Virtual
Type A	X		X	
Type C		X	X	
Type D		X	X	X
Type E		X		X

**Answer 2**

A type D warehouse uses the value applicable when the goods entered the warehouse.

Customs have 60 days to accept or reject all applications to operate a Customs warehouse.

A customs warehouse is mainly used for the storage of goods. However, usual forms of handling can be carried out on goods.

If a trader wants to carry out complicated processes on the goods, it would need to be authorised for Inward Processing Relief.

Goods can remain in a warehouse for an indefinite period of time.