

SOMETHING TO DECLARE

Why it pays to have your customs duty in order



Virusha Subban

A thorough compliance review is a worthwhile measure to help curtail costs in trying economic times

MOST companies do not worry about their annual customs duty bill unless they are facing a South African Revenue Service (SARS) audit or a customs query from the receiver. Customs duty, as a tax, is often relegated to the level of the “poor cousin” of income tax. That is, until the proverbial hits the fan.

This is because customs duty is not seen as a risk factor nor is it something that tax managers or chief financial officers often have on the radar because, like other indirect taxes, customs duty is eventually passed on to the consumer.

If so, the mistake with this line of thought is that customs duty is not considered from a strategic point of view. Even though it may be passed on to the consumer, it is still a cost which has a cash flow effect. If eliminated or reduced, it will make a company’s product more marketable because the price payable by the consumer should

be less. The company’s gross profit margin should increase as the cost of sales would be lower.

One of the reasons for this tax not being viewed as a cost per se is that most companies do not actively police their customs duty cost. Most do not have dedicated in-house personnel to perform this function. Heavy reliance is placed on outside advisors such as clearing agents or in-house staff who perform administrative functions without considering the “bigger picture” such as the financial impact on the company.

Clearing agents would, with all due respect, follow their client’s instructions. The instruction to the clearing agent would be to clear the goods and ensure that whatever value-added tax (VAT) and import duty that are payable is paid so that the goods can move on as soon as possible. Clearing agents will not necessarily consider what the overall business of the importer entails.

The clearing agent will not, unless

requested to do so, consider which rebates apply and whether or not the importer would qualify for any rebates. The same can be said of in-house administrative personnel whose main responsibility would be to ensure that orders are met timeously and that suppliers are paid on time.

Our experience has shown that importers themselves are not usually aware of existing rebate provisions and the special rebate items that have been created for, for example, the 2010 Soccer World Cup.

Importers are not always alive to the fact that different import duty rates apply depending on the country of origin of the goods.

Further, customs legislation has stringent compliance requirements with regard to the storage of imported goods, record keeping, goods under rebate etc. Even if a company has been advised on the correct import duty rates, other customs compliance and legal issues are often overlooked.

Such non-compliance will have a

cost impact, as penalties levied by SARS for non-compliance are often more severe than the import duty payable. Further, the Customs Act provides that goods that are irregularly dealt with are liable to forfeiture. One could be faced with a hefty fine and face the company’s goods being confiscated for non-compliance.

A thorough customs compliance review or health check is one solution to prevent such an eventuality.

The benefit of such a process is that it would determine whether imported goods are being correctly classified for customs purposes. Consideration would also be given to reducing the customs bill on imported goods by examining the country of origin and maximising the use of rebates, warehousing and other duty saving techniques where applicable.

This is a worthwhile measure to curtail costs in tough economic times.

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