



# IMPORTATION PROCEDURES

Presentation by:

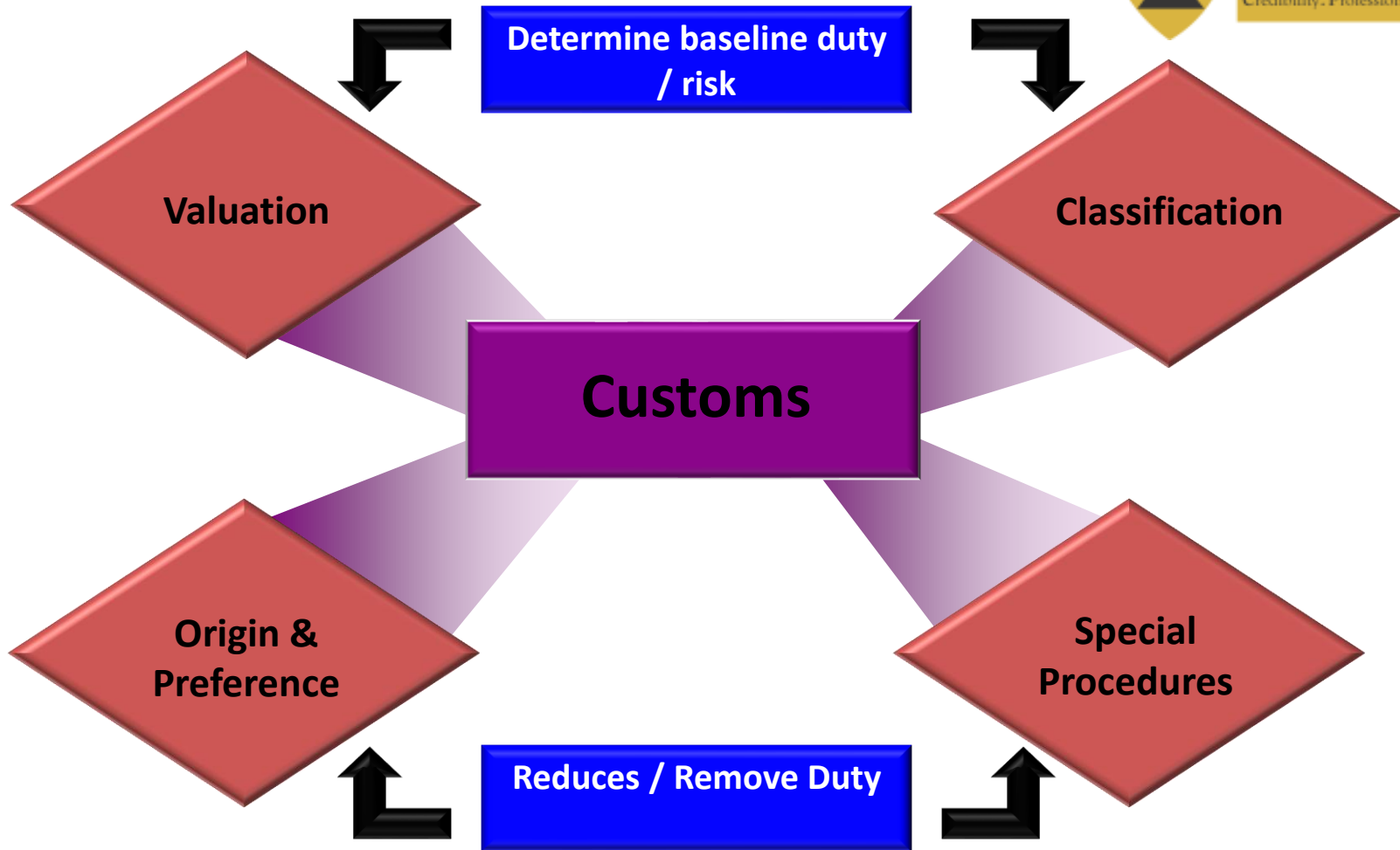
**Hadijah Nannyomo**  
**Executive Director – Indirect Taxes, EY**  
**Friday, 10<sup>th</sup> May 2019**

# Presentation agenda



- ☐ ICPAK CPD Policy and an ambassador of the Institute
- ☐ Training Approach
- ☐ Know Your Audience
- ☐ Key Training Techniques and Preparation
- ☐ Quality of presentation slides
- ☐ Qualities of a Good Trainer
- ☐ Communication
- ☐ Time Management
- ☐ Contract Engagement Rules

# Strategic overview of Customs



# Import Procedures



Section 2 of EACCMA describes an import as, “Bringing or causing to bring into a partner state from a foreign country”.

The regime to follow when an import has arrived at the first port of entry is either of:

1. Clearance for home consumption
2. Clearance for transit
3. Clearance for export/re export -
4. Clearance for warehousing
5. Clearance for temporary importation

# Import Procedures- Cont'd



1. Clearance for home consumption- happens before goods are released from the port of entry:
  - Declaration / Registration at a Data Processing Centre by agent and taxes paid,
  - Verification, if required – documents will go back to customs for valuation/assessment, tariff classification checks, etc. Verification level depends on channel status- blue, green, yellow, blue
  - Document Check and release of goods to taxpayer/clearing agent



# Customs Valuation

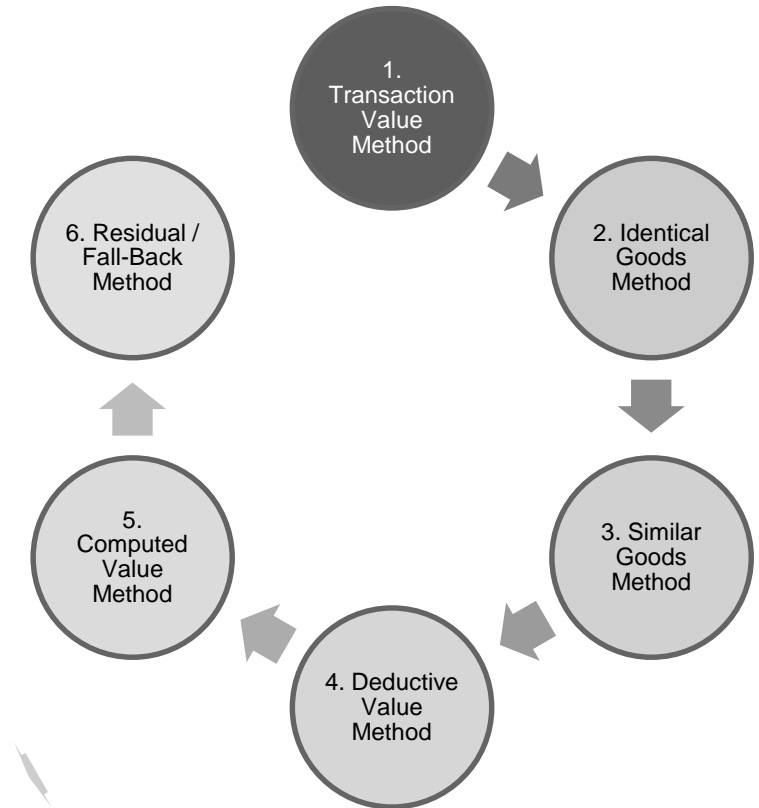
# Valuation models at a glance

How do we determine the customs value?

- ▶ Starting point is the **Transaction Value Method – Method 1**

- ▶ Arms length price as indicated on invoice
- ▶ Majority of transactions will fall under this method

- ▶ Where Transaction Value Method cannot apply, a **hierarchical sequence** of valuation methods must be adopted until an acceptable alternative method is established



# Valuation Method #1: “Transaction Value”



- “Transaction Value Method” is the default and used for greater than 95% of trade
- Starting point is the “price actually paid or to be paid against the sale of the goods for export”
  - Normally this is the value as per the commercial invoice
- But be careful
- Transaction Value is subject to mandatory additions and / or can be offset by some recognised deductions (e.g. post importation charges, finance costs etc.)

# Valuation Method #1: related parties



**Transaction value between related parties is acceptable where:**

## **Qualitative approach**

Circumstances of sale indicate that price has not been influenced

Set prices according to industry standards

Set prices as if to an unrelated buyer

Set using a cost plus method

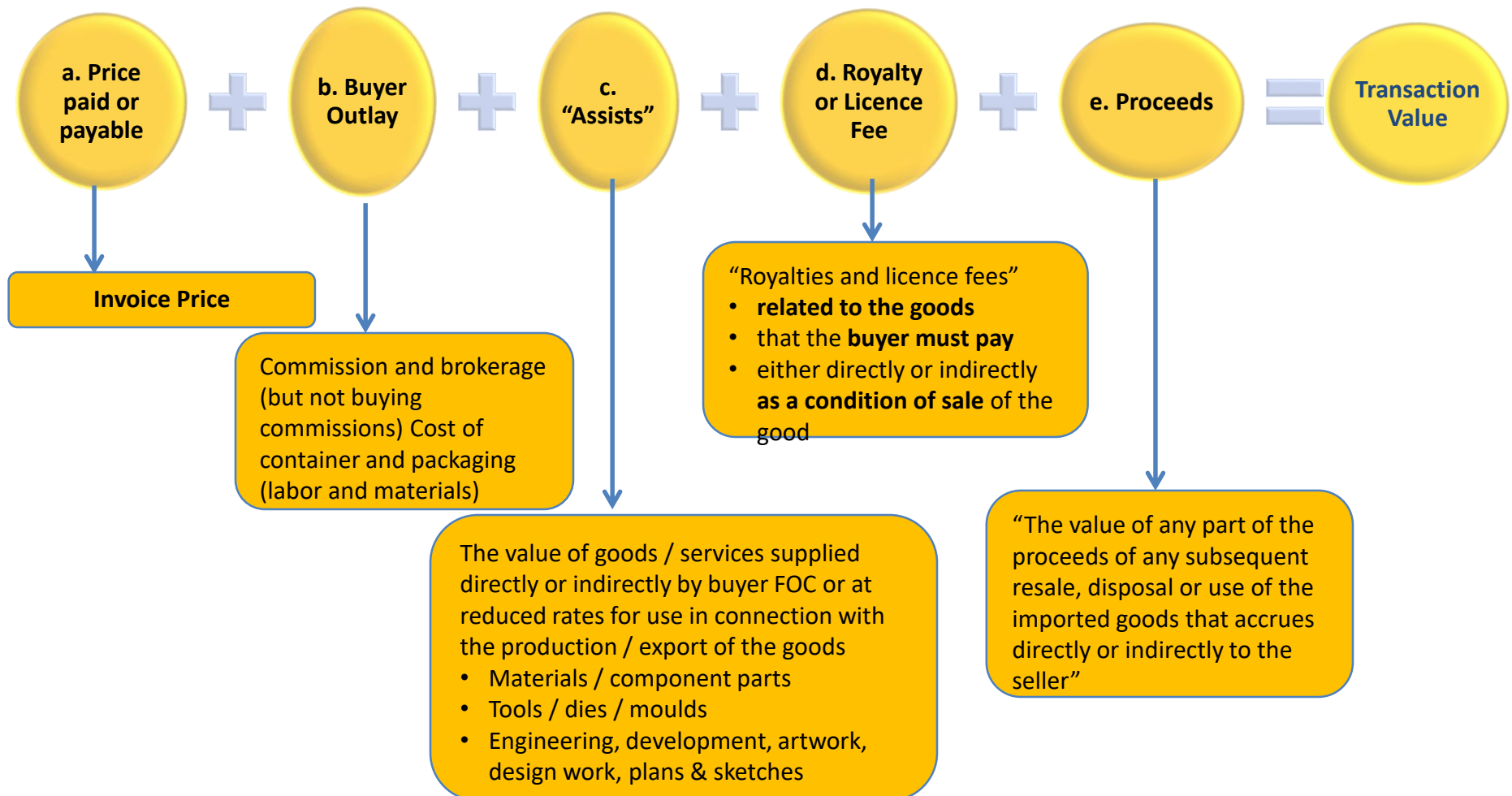
## **Quantitative approach**

Transaction value does not indicate that price has been influenced

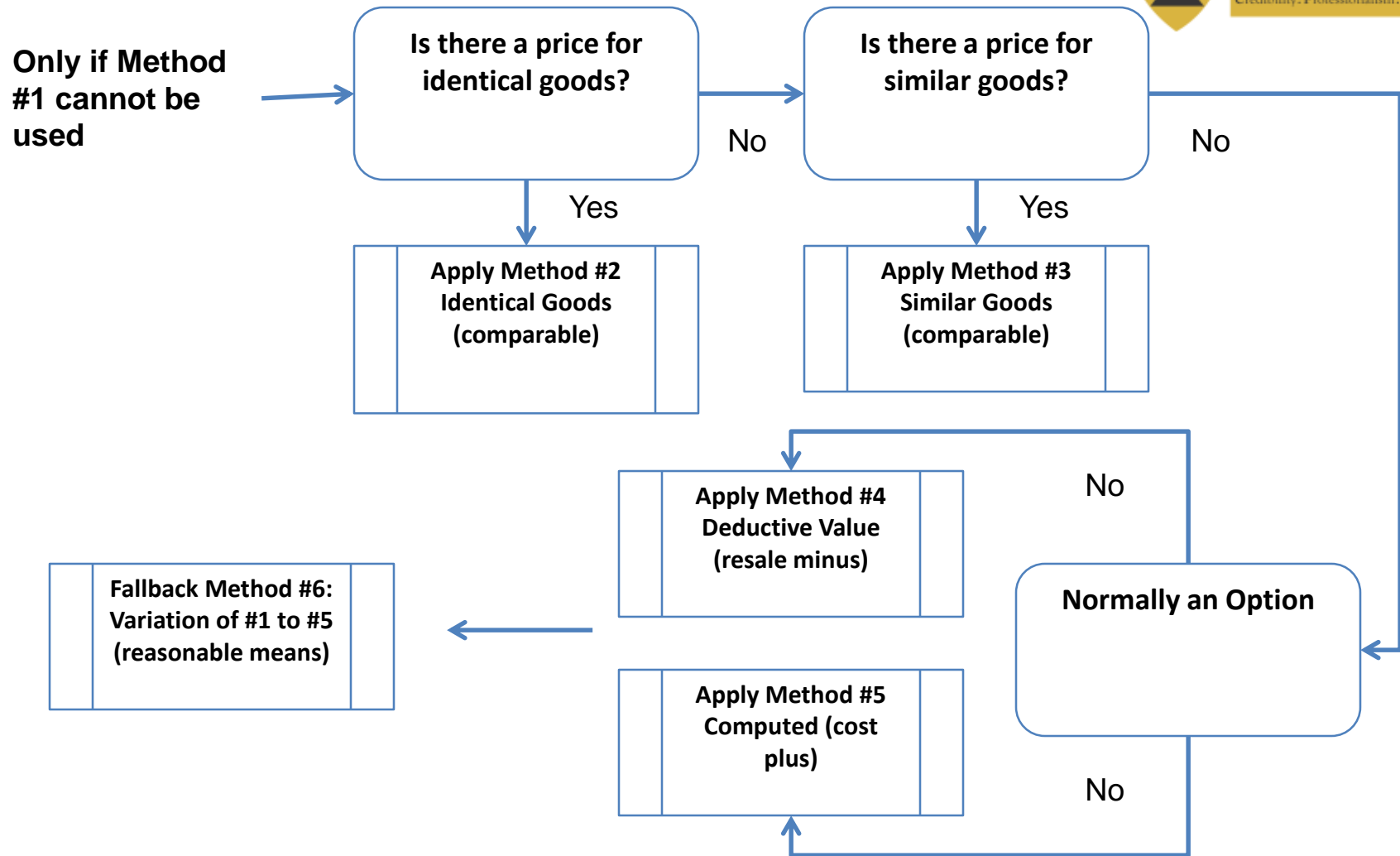
Compare to sales price between unrelated parties

Compare to customs value of identical goods

# Valuation Method #1: “Transaction Value”



# Alternative valuation methods





# Customs Tariff Classification

# The Legal Framework - The Harmonized System



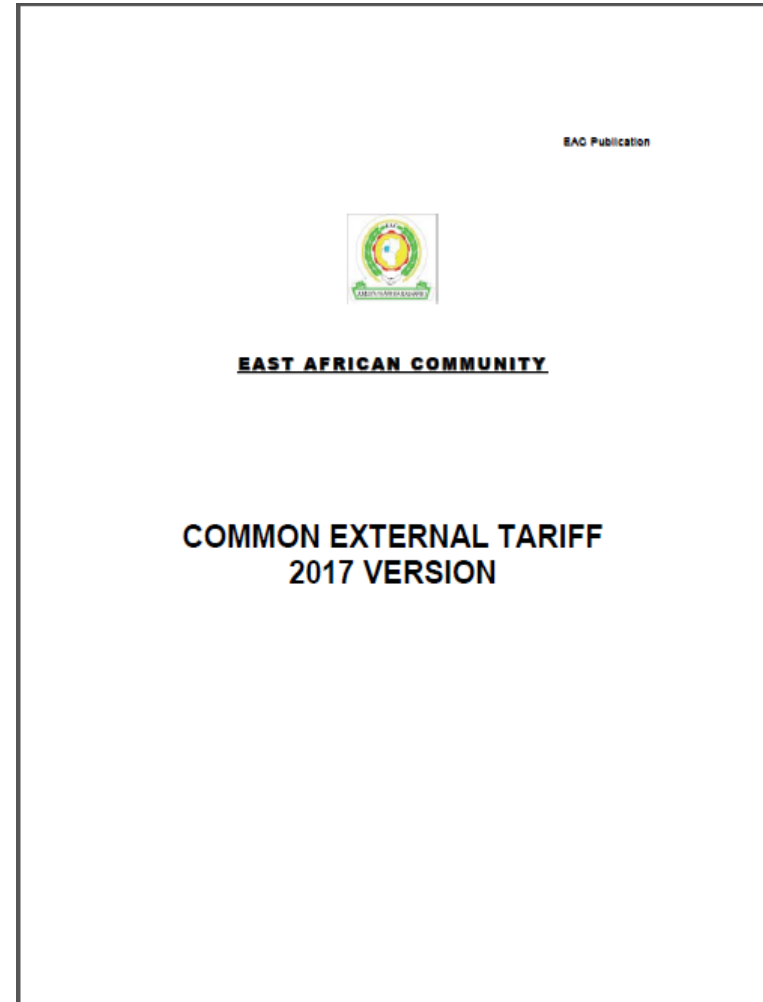
The HS is structured as follows:

- General Rules for the interpretation of the Harmonized System
  - Section Titles and Section Notes
    - Chapter Title and Chapter Notes
      - » Heading (4 digit)
      - » HS Code (6/8 digit)

# The General Interpretative Rules



- Integrated part of HS/CN
- Indicate the hierarchy of the available material
- Widen the scope of the headings
- Rules in case different headings apply



# General rules of interpretation (GRI)

## Rule 3

## Rule 2

## Rule 1

Reference in a heading to an item includes a ref to an incomplete or unfinished article, provided it has the essential character of the complete or finished article.

2. Any reference in a heading to a material or substance includes a reference to mixtures or combinations of that material or substance with other materials or substances. Any ref. To goods made from that material/substance incl. goods made wholly/partly of it.

## Rule 6

Only subheadings at the same level are comparable.

## Rules of Tariff Classification: General Notes in Sch.1

## Rule 5

Containers, specially-fitted to contain goods of a certain kind, presented with the goods, must be classified with such article. Packing materials presented with the goods, and normally used for packing, must be classified with the goods.

## Rule 4

Goods which cannot be classified into 3, can be classified under the heading for goods to which they are most akin.

### If goods are classifiable under 2 or more headings:

3.1. The heading which provides the more *specific* description. If, however, 2 or more headings refer to only part of the materials or substances which make up composite goods, then both headings must be regarded as equally specific.



3.2. If mixtures and composite goods cannot be classified in terms of Point 1, then they must be classified by the material/component which gives them their *essential character*.



3.3. If goods cannot be classified in terms of points 1 and 2, they must be classified under the heading which *occurs last* in numerical order among those which could equally apply.

# Case study: Smart phones



- How should an iPhone be classified?
- Mobile telephone - 8517.11
- Other apparatus for the transmission of voice, images and data - 8517.61
- Portable music player - 8527.13
- Camera - 8525.80

Apply the GRIs to these headings

# Heading 8517 illustration



Heading No.	H.S. Code/Tariff No.	Description	Unit of Quantity	Rate
	8517.11.00	-- Line telephone sets with cordless handsets	u	0%
	8517.12.00	-- Telephones for cellular networks or for other wireless networks	u	0%
	8517.18.00	-- Other	u	0%
		- Other apparatus for transmission or reception of voice, images or other data, including apparatus for communication in a wired or wireless network (such as a local or wide area network):		
	8517.61.00	-- Base stations	u	0%
	8517.62.00	-- Machines for the reception, conversion and transmission or regeneration of voice, images or other data, including switching and routing apparatus:	u	0%
	8517.69.00	-- Other	u	0%
	8517.70.00	- Parts	kg	10%
<b>85.18</b>		<b>Microphones and stands therefor; loudspeakers, whether or not mounted in their enclosures; headphones and earphones whether or not combined with a microphone, and sets consisting of a microphone and one or more loudspeakers ;</b>		

# Tariff heading 8525 illustration



<b>85.25</b>	<b>Transmission apparatus for radio-broadcasting or television, whether or not incorporating reception apparatus or sound recording or reproducing apparatus; television cameras, digital cameras and video camera recorders.</b>		
8525.50.00	- Transmission apparatus	u	0%
8525.60.00	- Transmission apparatus incorporating reception apparatus	u	0%
8525.80.00	- Television cameras, digital cameras and video camera recorders	u	0%
<b>85.26</b>	<b>Radar apparatus, radio navigational aid apparatus and radio remote control apparatus.</b>		
8526.10.00	- Radar apparatus	u	0%
	- Other:		
8526.91.00	-- Radio navigational aid apparatus	u	0%

# Tariff heading 8527 illustration



**85.27**

**Reception apparatus for radio-broadcasting, whether or not combined, in the same housing, with sound recording or reproducing apparatus or a clock.**

- Radio-broadcast receivers capable of operating without an external source of power:

8527.12.00	-- Pocket-size radio cassette-players	u	25%
8527.13.00	-- Other apparatus combined with sound recording or reproducing apparatus	u	25%
8527.19.00	-- Other	u	25%
	- Radio-broadcast receivers not capable of operating without an external source of power, of a kind used in motor vehicles:		
8527.21.00	-- Combined with sound recording or reproducing apparatus	u	25%
8527.29.00	-- Other	u	25%
	- Other:		
8527.91.00	-- Combined with sound recording or reproducing apparatus	u	25%
8527.92.00	-- Not combined with sound recording or reproducing apparatus but combined with a clock	u	25%
8527.99.00	-- Other	u	25%



# Duty Computation

# Duty computation

How do we compute customs duties?



Rate	Category	Description
0%	Raw materials	Goods not subjected to any form of transformation in production. This category also includes residues, waste and scrap in as far as they are only necessary for recovery of raw materials
	Capital goods	Durable industrial production goods i.e. most plant and machinery
10%	Intermediate goods	Goods that have undergone some degree of transformation. Such goods would require further processing before they are ready for final consumption. This category also includes 'parts' as far as they are identified as such in the HS code
25%	Finished goods	Goods that are ready for consumption
> 25%	Sensitive goods	Goods considered of economic importance by the Partner States e.g. sugar, milk, rice, wheat, etc.

# Duty computation

How do we compute customs duties?



<b>Free on board (FOB) cost</b>	11,000,000
<b>Insurance</b>	165,000
<b>Freight</b>	435,204
<b>Customs value</b>	<b>11,600,204</b>
<b>Import duty @25%</b>	2,900,051
<b>Excise duty @20%</b>	580,010
<b>VAT @16%</b>	556,810
<b>Import declaration fee (IDF) @2%</b>	232,004.08
<b>Railway development levy (RDL) @1.5%</b>	174,003
	<b>4,442,878</b>

► Determination of the customs value

► Duty computation based on rate per classified tariff



# Managing Customs Audits

# Customs Post Clearance audits



- Carried out after the completion of import clearance to check whether or not the importer's own initiative declaration was true and correct
- Conducted where goods were cleared under green channel or where mis-declaration is suspected or one is an Authorised Economic Operator

# Customs Post Clearance Audits



- The audit inquiry is carried out at the importer's offices,
- Customs audits verify tariff classification, valuation, country of origin, correct taxes paid and the related financial information and documentation the importer is required to maintain

# Relevant documents



- Sales and purchases ledgers
- Copies of Customs Bills of Entry and attachments;  
Copies of warehousing entries
- Suppliers' lists and statements;
- Copies of audited financial statements;
- Details of payments for imports to suppliers;
- Bank statements for the period under review
- Copies of contracts/orders with suppliers
- VAT Returns and supporting schedules;
- Stock movement and registers

## Customs PCAs – Main areas of exposure



- Tariff Classification of items
- Customs valuation of items- Under or over valuation
- Wrong or mis-declarations
- Wrong foreign exchange rates
- Misuse of incentives approved- wrong CPCs
- Outright smuggling/tax evasion

# How to mitigate Customs audit exposures



- Undertake Internal self reviews- Internal controls or advisors
- Have a key point of contact
- Seek advance rulings when in doubt
- Choose advisors and customs brokers carefully
- Proper record keeping
- Continuous training of affected staff

# Interactive Session





# DUTY SAVING OPPORTUNITIES

Presentation by:

**Hadijah Nannyomo**  
**Executive Director – Indirect Taxes, EY**  
**Friday, 10<sup>th</sup> May 2019**

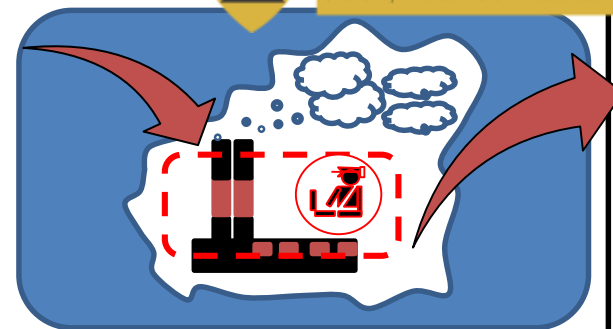
# Duty Saving Opportunities

- ▶ Manufacture Under Bond
- ▶ Special Economic / Export Processing Zones
- ▶ Duty Drawback
- ▶ Duty Remission
- ▶ Warehousing/ Storage in bond
- ▶ Temporary Importation
- ▶ Duty exemptions

# Customs Duties saving strategies

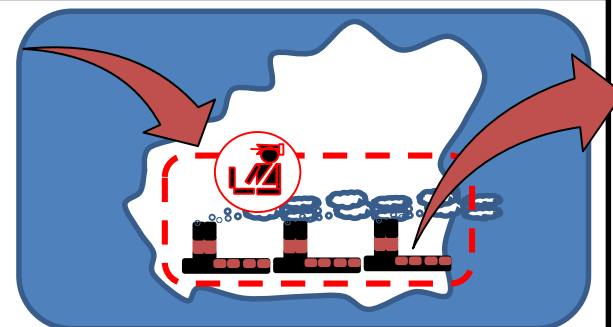
## Manufacture Under Bond

Manufacturers who produce goods for export import raw materials free of duty using a bonded warehouse facility. The factory bond is owned by the manufacturer but Customs controlled. Saves on all import duties.



## Export/Special Processing Zones (EPZ/SEZ)

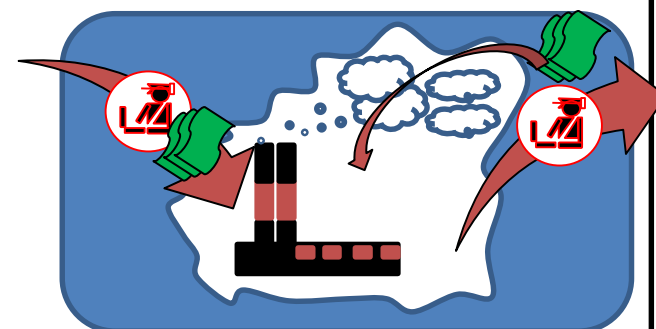
Free Trade Zones are open to manufacturers of goods and services for export who import raw materials for use in manufacturing process. SEZs open to both exporters and producers for home consumption.



## Duty Drawback

Refund of all customs duties paid on raw materials for goods subsequently exported. This is on application and approval .

Also applicable to finished goods imported and duty paid but later re exported.



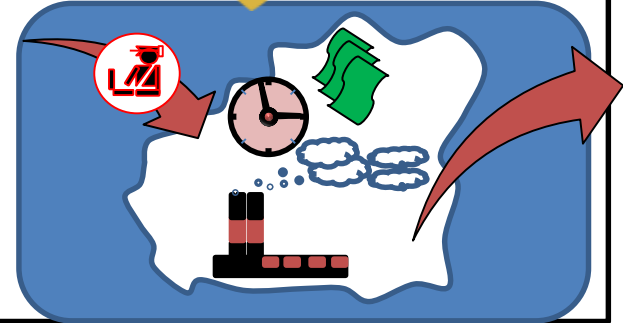
# Customs Duties saving strategies



## Duty Remission

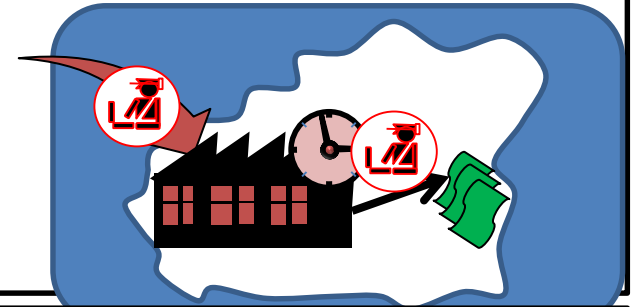
- Duty remissions authorised by the EAC Council of Ministers as per EAC Duty Remissions Regulations.

It is given on application and goods produced must be for export outside EAC.



## Warehousing / Storage in bond

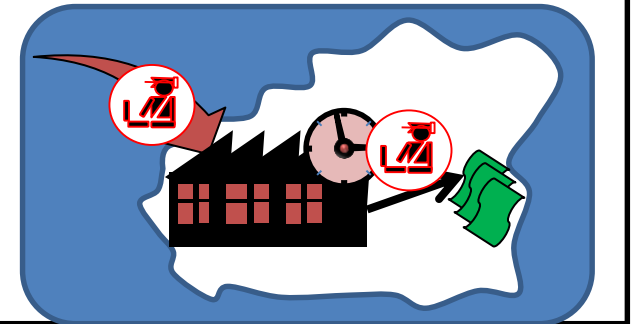
Deferment of duty payment for goods stored in Customs controlled warehouses for a period of time. Three to six months period given.



## Temporary Importation

Goods can be imported on application for one year and re-exported thereafter.

Goods must be uniquely identifiable and a bond must be executed equivalent to the taxes payable.



# Interactive Session

