COMMERCIAL BANKING

Leaving the EU: Duty deferment and impact on working capital

July 2020

LLOYDS BANK

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Introduction

With the UK leaving the EU on 31st January 2020, the UK has entered into a transition period until 31st December 2020. The purpose of a transition period is to provide the UK with time to negotiate new international agreements with the EU – as well as other countries.

If you are trading internationally, outside of the EU, your future trading activity will be no different and trading with the EU will be similar to trading with other regions. When trading with the EU after 31st January, you will need to consider how to manage the additional cost of duty that may be imposed by the EU.

If you've only traded with the EU to date, there are many areas to consider in order to ensure your business is prepared to continue trading and/or that you can fulfil your contracts.

Whether you buy or sell, import or export - or whether you trade raw materials, parts, or fully finished goods - customs duty may apply to goods going into or out of the EU after the transition period ends. If you haven't done so yet, do consider the impact that the payment of duty may have on your working capital.

If you are an importer and buy goods from the EU, there are several customs procedures that you will want to be aware and that will allow for duty relief. For example:

- **Customs warehousing (or "Bonded warehousing")**: allows businesses to store goods and suspend duty or import VAT payments. Once goods leave the warehouse, duty must be paid unless the business is re-exporting, or moving goods to another customs procedure. The warehouse must be authorised by HMRC.
- **Inward processing**: allows businesses in the UK to import goods from non-EU countries for work or modification in the EU. If goods are not being exported again or released for free circulation within EU, any customs duty and VAT would then be due for payment.
- **Temporary admission**: allows businesses to temporarily import and/or export goods, such as samples, professional equipment or items for auction, exhibition or demonstration into and out of the UK or EU. As long as the goods are not modified or altered while they are within the UK/EU, the business will not have to pay duty or import VAT.
- **Authorised use**: allows a reduced or zero rate of customs duty on goods used for specific purposes and within a set time period. For excise duty purposes, goods are not regarded as imported if they are immediately placed under one of the above customs procedures. Businesses need to pay excise duty when these goods are released for free circulation, unless they are immediately placed in excise duty suspension.

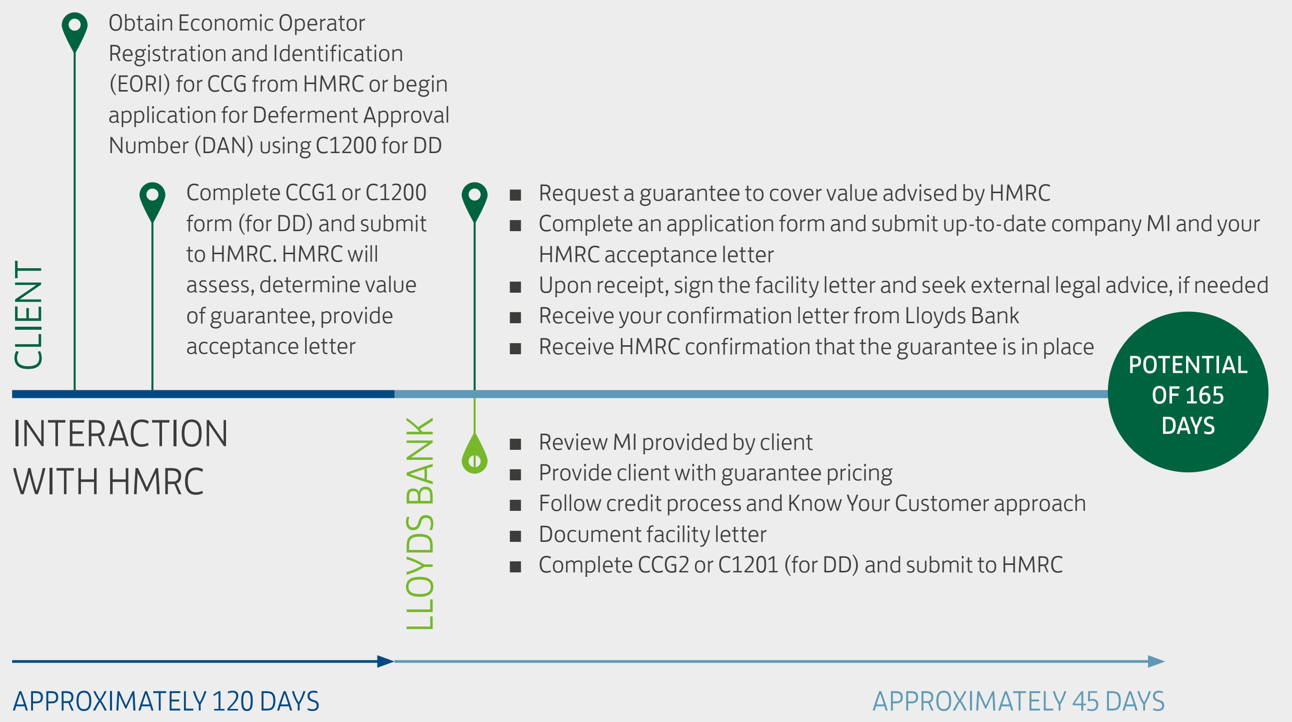
In the case that duties are required to be paid, businesses can use **Duty Deferment Bonds** to delay payment. However, for HMRC to grant duty deferment facilities, your business will need to provide adequate security in the form of a **guarantee** (either a Duty Deferment Guarantee (DD) or a Customs Comprehensive Guarantee (CCG)) from a financial institution (a bank, insurance company or building society only). **The guarantee must be enough to cover all deferrable liabilities for any calendar month.**

Businesses can apply for duty deferment if they are an importer; if they own goods in a warehouse or free zone; or if they are an agent who is responsible for entering goods for importers or owners.

If you are considering deferring duty to aid your working capital management, it is crucial that your business is prepared in advance. Talk to your Relationship Manager to help you plan.

If you've only ever traded with the EU, you may not be as familiar with the steps and timelines involved in importing and exporting goods and paying (or deferring) duties.

Below is a high level illustration of the steps you will need to follow to be able to obtain a customs guarantee:



What you can do to prepare

Your key checklist for EU trade readiness

- ✓ Obtain an EORI or DAN number from HMRC:
  EORI – https://www.gov.uk/eori
  DAN – https://www.gov.uk/guidance/setting-up-an-account-to-defer-duty-payments-when-you-import-goods
- ✓ Decide if you want to hire an agent to make import and/or export declarations for you or if you want to make these declarations yourself (you may purchase software that interacts with HMRC's systems)
- ✓ Contact the organisation that moves your goods (for example, a haulage firm) to find out if you will need to supply additional information to them so that they can make the safety and security declarations for your goods, or whether you will need to submit these declarations yourself.

More information can be found at: https://www.gov.uk/guidance/finding-commodity-codes-for-imports-or-exports

In addition to the key actions above, below are other items you should consider

- ✓ Ensure your contracts and International T&Cs for Service (INCOTERMS) show that you are now an importer and/or exporter
- ✓ Ensure you are aware of the HS codes for your products https://www.gov.uk/trade-tariff
- ✓ The government may consider introducing postponed accounting for import VAT on goods brought into the UK. Consider whether this could have a positive impact on your cash flow
- ✓ Speak to your accountant so that they are ready to review documentation when needed
- ✓ Make sure your accounts are in good shape to be sent to your bank when required
- ✓ Talk to your Relationship Manager in advance to discuss your working capital needs, how new EU duty may impact your cash flow and whether deferring duty is right for you.

Authorised Economic Operator (AEO) status opens the door to new opportunities

Under the Union Customs Code (UCC), a waiver for the new financial guarantee requirement for suspended duty is granted to AEO certified businesses. With the level of required guarantees potentially increasing due to the UK leaving the EU, this is potentially a very valuable benefit to both importers (buyers) and exporters (sellers) of goods beyond the UK. Without this status, the requirement for payment of guarantees can introduce significant costs to businesses.

More information about AEO accreditation can be found at:
https://www.gov.uk/guidance/authorised-economic-operator-certification

How Lloyds Bank can help

Lloyds Bank is a large issuer of Duty Deferment Bonds, with a UK-based operational centre of excellence; the experience and detailed understanding of the process; as well as HMRC's requirements. Please do contact Lloyds Bank to support your business if you are buying or selling goods beyond the UK.

As experts in working capital, Lloyds Bank is well-placed to help businesses identify the impact that leaving the EU will have on cash flow. Lloyds Bank supports businesses with different levels of working capital analysis, from an overview – with a high-level check and recommendations to resolve immediate issues - all the way through to a full working capital review and analysis to help businesses identify opportunities and obtain a clear view of what can be achieved with strategic improvements.

Guidance on trading with the EU for importers and exporters can be found at:
https://www.gov.uk/topic/business-tax/import-export

Opportunities for international trade are growing

Lloyds Bank's award winning International Trade Portal, or ITP, (www.lloydsbanktrade.com) offers a powerful, easy-to-use gateway to explore worldwide business opportunities sourced from the UK Department for International Trade.

The ITP helps companies:

- Find new opportunities
- Identify the right markets;
- Understand the market position;
- Assess the costs;
- Stay compliant; and
- Build relationships.

Focusing on working capital is crucial

Any additional costs when trading have an impact on finances. These costs can include import or export duties, a need for longer lead times for production or for payment for goods and materials, and/ or operations. When faced with additional costs, optimising your working capital is crucial.

There is typically an opportunity to improve working capital and related processes. Digital tools are an essential element of a modern working capital programme and are now more widely available. These programmes range from simple benchmarking (which highlights areas of opportunity) to data-driven diagnostic analysis to pinpoint specific improvements.

The three key areas you would want to look at are:

ACCOUNTS PAYABLE

The cash that your business is committed to pay your suppliers for services or products that have been received with a valid invoice.

INVENTORY

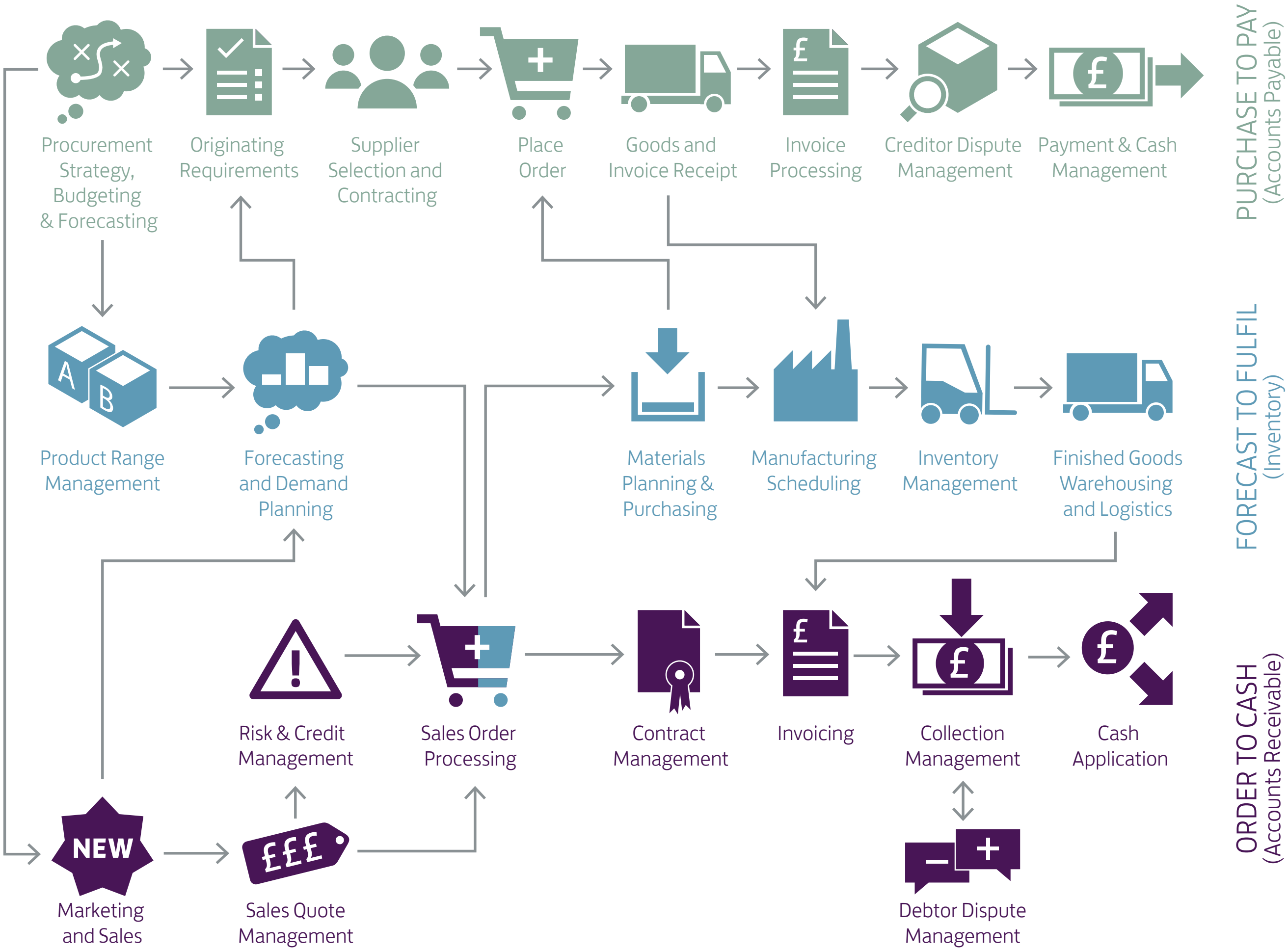
The cash tied up in raw materials, work-in-progress and finished goods, including other miscellaneous inventories, for the purpose of selling to customers.

ACCOUNTS RECEIVABLE

The cash that is owed to your business by your customers for the services or products that you provided them.

Working capital: the engine room of cash flow

Focusing on your working capital allows you to identify opportunities to release cash tied up in your business processes. It may be that some of the business processes will need to change to enhance efficiencies and to follow changing rules of engagement when trading with the EU. Consider some of these processes below:



Lloyds Bank supports businesses' drive for greater efficiency with data-led insights to help companies control, accelerate and finance working capital. The payment and financing capabilities provided by Lloyds Bank go hand-in-hand with process improvements.

What you need | How we can help

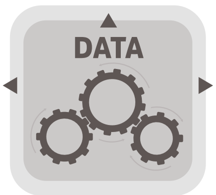
4 Hold cash balances
KPIs: Yield, % of available funds

WHAT WE PROVIDE	HOW IT HELPS
Cash pooling & sweeping	Yield and availability
Enhanced deposits	Yield

1 Pay your suppliers
KPI: Days Payable Outstanding

WHAT WE PROVIDE	HOW IT HELPS
UK & international payments	Process control
Procurement cards	Process control & finance
Letters of credit & guarantees	Term negotiating power
Supplier finance	Process control & finance
Import finance	Negotiate price & finance

Digital bench-marking tools



Payment diagnostics

3 Collect cash from customers
KPI: Days Sales Outstanding

WHAT WE PROVIDE	HOW IT HELPS
Physical cash processing	Accelerate clearing
Direct debits	Control & timely collection
Card acquiring	Process control & accelerate
Export finance	Niche finance
Invoice discounting	Flexible finance

2 Produce and hold stock
KPI: Days Inventory Outstanding

WHAT WE PROVIDE	HOW IT HELPS
Asset based lending and hire purchase	Efficient finance for commodities and stock producing assets such as machinery

For more information on how we can help, please contact your Relationship Manager.

Glossary

- **EORI Number**: Economic Operator Registration Identification number is used by both exporters and importers for making customs declaration. This is a unique number used by customs authorities to identify your company and nature of the business. You can apply EORI Number from HMRC and it usually issued within 5 working days.
- **Licencing/Certificate**: You may need to get licence or certificate to import or export certain goods and service to and from the UK. You can check whether your business needs Licence by visiting GOV.UK website.
- **Customs Declaration**: The customs declaration needs to be submitted by both exporters and importers using Customs Handling of Import and Export Freight (CHIEF) system. To access CHIEF, you need EORI number and register for National Export System (NES). You can apply for simplified declaration procedures and for Authorised Economic Operator status. These are most suitable for businesses that export goods regularly.
- **Taxes and duties on imports**: It is usually the case that, as a buyer/importer, you will have to pay both import VAT and duty on imported goods before they can be cleared for entry into the UK.
- **VAT Registration**: Today, VAT is charged on goods imported from outside the EU at the same rate as if you bought the goods in the UK. If you are a VAT-registered business, and as long as the goods are used for business purposes, you can reclaim the VAT as input tax in the same way as VAT that is paid on UK purchases. It is also worth remembering that there will be VAT to pay on any import duty. What is different is that VAT on imported goods is paid directly to HMRC, while domestic VAT is normally paid to a supplier of goods. After an import VAT payment is made by a UK VAT-registered trader (are companies who buy from the EU only, registered traders?), an HMRC form C79 showing the VAT paid will be electronically produced and sent to the business address. This 'Import VAT Certificate' is then used as evidence of the VAT paid and can be included in your VAT return.
- **Customs Duty**: In addition to VAT, there is often Customs Duty to be paid on imported goods. Unlike VAT, the rate of Duty is variable and depends on the nature of the goods being imported, and from where they are being imported. The different rates of duty are linked to commodity codes which can be found on GOV.UK. These codes can be confusing, and some are linked to much higher rates than others, so always check that the right commodity code is being used for the goods you are importing. Unlike VAT, Customs Duty cannot be reclaimed. This said, customs duty can be suspended or deferred/delayed for a period of time, or waived altogether. This is outlined in our paper.
- **Excise and custom duty** are taxes levied by the government but the major difference between the two is that excise is the tax levied by the government on the goods manufactured in the country while customs duty is a tax levied upon goods imported in to the country from foreign countries. Customs duties are imposed by the Customs and Excise Act 91 of 1964. They are levied on imported goods with the aim of raising revenue and protecting the local market. They are usually calculated as a percentage of the value of the goods (set in the schedules to the Customs and Excise Act).

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Find out more

Go to **https://www.lloydsbank.com/business/commercial-banking/international.html**

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