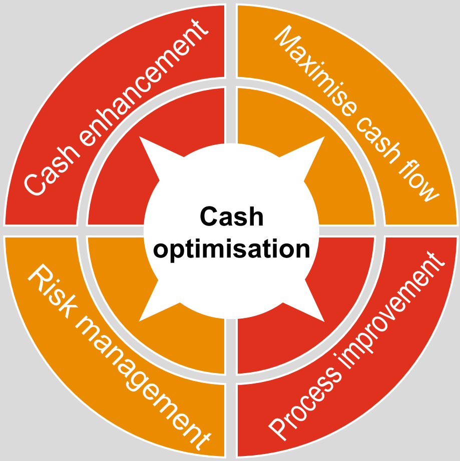
Indirect taxes – Customs and Excise Tax

Managing and controlling cash flow

We understand that all organisations are seeking to continuously improve their internal indirect tax function and identify, realise and protect cash enhancement opportunities.

It is important you review your cash optimisation in four key areas:

- **Cash recovery** – Are there opportunities for historic Customs/Excise Tax reclaims with ongoing benefit too?
- **Cash flow improvement –** Is the organisation taking advantage of all the contemporary options available?
- **Process improvement –** Can current processes be automated, streamlined and have wastage removed?
- **Risk management –** In managing risks properly, you can ensure cash does not leak out on an ongoing basis.



Cash flow improvements

The below merely highlights a few general areas in which a business can manage and control its indirect tax obligations during these challenging times.

Customs	Excise tax
Valuation	**Excise Tax warehousing/Designated Zones**
Classification	**Refund of Excise Tax paid**
Sourcing Policy	**Review of payment terms**
Duty reliefs and exemptions	**Validity of assessments, penalties and interest**
Reduction of cost for customs guarantees	**Tax reliefs in challenging times**
Customs reliefs in challenging times	

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Customs issues

Valuation

Importing companies often receive retrospective rebates and adjustments from suppliers, for volume incentives, prompt payment and also transfer pricing adjustments. These adjustments can potentially lower the customs duty and import VAT, or by way of reclaim from the competent local Customs Authority. Coordination with the tax function is required to ensure consistency and management of any potential unintended consequence when lowering the duty bill.

Classification

The customs classification of a product determines the rate of duty applicable to it. With a number of classification codes to choose from, a tariff classification analysis can reduce duty costs and provide opportunities for historic claims. Often times, businesses rely on the classification provided by the supplier or the customs broker, missing an opportunity to optimize their imports.

Sourcing policy

Regional and global preferential trade agreements mean eligible goods bear reduced or zero customs duty rates based on origin or customs status. Sourcing strategies for both raw materials and finished goods should take these into account. Each of the preferential trade agreements that the GCC countries apply contain a different set of rules of origin; careful analysis of these and each particular supply chain setup may lead to significant duty savings.

Use of duty reliefs and exemptions

Customs duty and import VAT savings can be made on goods imported on a temporary basis, for processing and re-export or, in some cases, for retention in the GCC (customs duty exemption for industry inputs). Customs warehousing, bonded warehouses and bonded zones defer payment of duty and import VAT until goods leave those areas, and no payment is due on goods that are subsequently re-exported outside the GCC. Free zones are widely used in certain GCC countries to achieve significant duty savings and deferment.

Reduction of cost for customs guarantees

Some countries apply “virtual” guarantees to use customs duty reliefs. While enrolling these programs may seem burdensome, the ultimate financial benefit of operating under a “virtual” guarantee often exceeds the operating cost.

Customs reliefs in challenging times

Most customs authorities react to crisis environments by reducing, eliminating or postponing the payment of customs duty, clearing fees, attestation/legalization fees, or bank/cash guarantees. It is critical that businesses monitor these measures in the countries they operate to quickly cash in any opportunity and (re)allocate the extra funds to more pressing people or commercial matters.

Excise Tax issues

Excise Tax warehousing/Designated Zones

Producing, storing or trading excisable goods (tobacco and tobacco related products, carbonated drinks, energy drinks, sweetened drinks) under a tax suspension arrangement by using a tax warehouse/Designated Zone defer the payment of Excise Tax. Businesses engaged in the export of excisable goods will not need to pay Excise Tax if the goods are not released for consumption in the country.

Refund of Excise Tax paid

In certain countries companies can obtain Excise Tax refunds for excisable goods removed from the market when no longer fit for consumption, or when exported outside the GCC (if the goods are Excise Tax paid).

Review of payment terms

Producers and importers of excise goods are liable to pay Excise Tax upon production and import of excisable goods, respectively. This normally occur in the early stages of the supply chain, before the goods are actually consumed. In addition to operating a tax warehouse/Designated Zone, businesses can examine their contractual obligations to assess the possibility of reviewing the payment terms to accommodate (partially or fully) the impact of Excise Tax in their supply chain.

Validity of assessments, penalties and interest

Many businesses unwittingly pay incorrect assessments, undue interest and penalties too, or do not receive what is due from the local tax authority. Periodical assessments of Excise Tax positions help mitigate any unintended tax leakage.

Tax reliefs in challenging times

Most tax authorities react to crisis environments by introducing measures that intend to ease the financial burden on businesses. When it comes to Excise Tax, some of these measures include the delay in the submission of the periodical returns and reporting obligations, the postponement of the payment of the Excise Tax due, or the removal of certain guarantees that are required to operate under the Excise Tax regime.

The above merely highlights a few general areas in which a business can manage and control its customs and excise tax obligations during these challenging times. Should you wish to discuss a specific situation please contact the following:

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