CUSTOMS

Definition of Key Terms

Customs Duty

This refers to taxes levied on imported or exported goods. The two types of customs duties collected under international trade are import and export duty. The duties are listed in the country's tariff schedule. Duties may be ad valorem or specific.

- An ad valorem duty is a fixed percentage of the value of the goods that are being imported e.g. 10% of value X.

- A specific duty is a duty of a specific amount of money that does not vary with the price of the goods but with its weight, volume, surface, etc. The specific duty stipulates how many units of currency are to be levied per unit of quantity (e.g. fuel could be charged at a specific duty of $ 24 per litter. If this were ad valorem it would be say 10% of a CIF value which would be determined from time to time.

Import

This means to bring or cause to be brought into the Partner states goods from a foreign country.

Imported Goods

These are goods that are brought into the Partner states from a foreign country.

Goods

These include all kinds of articles, wares, merchandise, livestock and currency, and, where such goods are sold under the EAC-CMA, the proceeds of such sale. Goods may be brought into the Partner states by sea, air or overland as a means of transport.

Prohibited Goods

These are goods whose importation or exportation is not allowed under the EAC-CMA, for instance narcotic drugs, hazardous wastes, used tires for light commercial vehicles and passenger cars, all soaps and cosmetic products containing mercury.

Restricted Goods

These are goods whose importation or exportation is only allowed under specific conditions as provided for by the EAC-CMA. For example, arms and ammunitions, ivory, timber from any wood grown in the Partner states and fresh unprocessed fish, among others.

Tariff

This is a rate of tax levied on imports or exports.

CET

This means the Common External Tariff and is an identical rate of tariff imposed on goods imported from foreign countries into Partner states.

CIF

This means Cost, Insurance and Freight.

Goods in Transit

These are goods being conveyed through the customs territory(Partner states) from a foreign country to another foreign country e.g. Goods from South Africa through Tanzania and Uganda to DRC.

Import Duty

This refers to the customs duties that are payable at importation.

Export Duty
This refers to any customs duty payable on exportation of goods.

IMPORT DUTY

Illustration 1
Mr. Ethan imports 100 cartons of jute bags from Hong Kong. Each carton contains 200 pieces. The **CIF Mombasa** for the goods is US$ 5,000. The customs duty rate for the jute bags is US$ 0.45 per piece.
Assuming the exchange rate is Shs 1,700 to a dollar, determine the customs duty payable.
Solution
Step 1 Deriving customs duty
Applying the duty rate of US$ 0.45 per piece
100ctns × 200pcs .... 20,000 pieces
Import duty (ID) will be;
ID = 20,000 × US$0.45 US$ 9,000
ID = US$ 9,000 × 1,700 Shs15,300,000.
Therefore, the customs duty payable is **Shs 15,300,000.**

Illustration 2
Assuming Mr. Ethan imports a used motor vehicle from Dubai at a CIF value of US$ 4,300 attracting 25% import duty, VAT of 18%, withholding tax of 6% and environmental levy of 20%. The current exchange rate is Shs 1,700 to a dollar.

Solution
Step 1

Convert exchange rate to Uganda shillings. Customs value (CIF) = $ 4,300 × 1,700
CIF value in Uganda shillings = Shs 7,310,000
Step 2

Import duty
Apply 25% import duty rate to the customs value Shs 7,310,000.
I.D = Shs 7,310,000 × 25%
I.D = Shs 1,827,500.

Step 3

Value Added Tax at 18%
The **VAT value** is derived by adding the **customs value to import duty**
(CIF + I.D)
VAT value = (Shs 7,310,000 + Shs 1,827,500)
To derive VAT you apply the VAT rate to the VAT value
VAT = (Shs 7,310,000 + Shs 1,827,500) × 18%
= Shs 9,137,500 × 18%
= Shs 1,644,750

Step 4

Withholding tax at 6%
To derive withholding tax you apply the **withholding tax rate** to the **customs value**
Customs value = Shs 7,310,000 × 6%
Withholding tax = Shs 438,600

Step 5

Environmental levy of 20% (Finance Bill 2008/09) Shs 7,310,000 × 20% = Shs 1,462,000.

Therefore, the total tax payable by Mr. Ethan on the vehicle imported from Dubai will comprise of:

- **Import duty** 1,827,500
- **VAT** 1,644,750
- **Withholding tax** 438,600
- **Environmental levy of** 1,462,000

Total taxes payable 5,372,850

Note: Please remember that this total doe not include registration fees and other costs.

Illustration 3

Mr. Ethan imported a 1 × 20 container of tiles from Egypt.

Note: Egypt is a member of COMESA- **(Common Market for East and Southern Africa rate)** so the duty rate is 6%.
On examination, 3 pallets were found with each package consisting of granite, polished porcelain and ceramic tiles.
Below are the particulars:

Qty and description	Size	Qty sq m total surface area	CIF value
922 ctns x 20pcs (plain)	30cm x 30cm	1,6596.0	US$ 4,978
357ctns x 6pcs (Ceramic)	50cm x 50cm	5,355.0	US$ 3,213
435 ctns x 4pcs (Granite)	60cm x 60cm	6.264.0	US$ 11,282.4
Total	d	e	US$ 19,473.4

<u>Computation</u>

Step 1

Determining customs value

Convert exchange rate to Uganda shillings Customs value (CIF)
US$ 19,473.4 × 1,700
= Shs 33,104,780

Step 2

Deriving import duty

Apply **6% import duty rate** (**COMESA - Common Market for East and Southern Africa rate)** to the **customs value** in Uganda shillings
I.D = 33,104,780 × 6% I.D = Shs 1,986,287

Step 3

Determining VAT at **18%**

The **VAT value** is derived by adding the customs value to import duty and excise duty (CIF + I.D + E.D)

VAT value = CIF + I.D + E.D)

To derive VAT you apply the VAT rate to the VAT value VAT = Shs (33,104,780 + 1,986,287 + NIL) × 18%
= Shs 35,091,067 × 18%
= Shs 6,316,392

Step 4

Determining withholding tax (WHT) 6%

Apply **6%** withholding tax rate to the customs value in Uganda shillings.

I.D = 33,104,780 × 6% I.D = **Shs 1,986,287**

Therefore, the Total tax payable (T.T.P) by Mr. Ethan on tiles from Egypt (COMESA Region) will comprise of:

Import duty	**1,986,287**
Excise duty	NIL
VAT	6,316,392
Withholding tax	1,986,287
Total tax payable	10,288,966

2. **EXPORT DUTY**

This refers to any customs duties payable on exportation of goods.
For the EAC, there is a Common External Tariff (CET) where goods are categorized based on the international harmonized commodity description and coding system. However export duty is computed based on the tax rate imposed by the exporting country.

Examination of Goods

The goods are examined and if the proper officer is satisfied with the valuation and documentation, the goods are released for export. The examination is based on grades ranging from Grade I - IV and the weight per kilogram.

Export Duty Computation

Determination of export duty involves the following processes:

Determination of the customs value may be based on the FOB cost or on quantity of the product. For example export tax on hides and skins is determined according to the quantity as illustrated below:
Determination of the tax payable on export of some specified grades of hides and skins is US$ 0.25 per kilogram as contained in the Finance Act.

Illustration 4

Ethan Tanners Ltd is an exporter of hides and skins. They have 10 plates of wet salted hides & skin of various grades and weights and values in a 1 × 20 container with details as here below:

S	Skin	W	Value/grade/Kg	Export duty
	Grade I	7,5	US$ 0.25	,875
	Grade III	1,0	US$ 0.25	250
	Grand	8,5	(f)	2,125

Exchange rate for exports differs from that of imports and for this case, the rate is Shs 1,700 per 1 US$. Therefore, customs value in Uganda
shillings will be:
Export duty in Shs = Total weight × Rate (US$ 0.25 per kg) × exchange rate
8,500 × US$ 0.25 per kg × 1,700 = Shs 3,612,500

Computation of Import Duty

Import duty = **Customs value × Import duty rate**
Customs value = **C+ I + F which is cost, insurance and freight**.

However, for air freight cargo, value is based on only the **cost and insurance** (C&I) of the goods. It excludes the cost of freight.

Determination of the tax payable using the tax rates is as defined in the customs tariffs contained in the CET.

The CET stipulates three tax bands (rates) of:
(i) 0% for raw materials.
10% for intermediate goods or semi processed goods.
25% for finished goods originating outside the EAC

Furthermore, duty payable may be determined by giving consideration to origin and other existing trade agreements due to preferential rates for example COMESA rates.