



EORI (UK) LIMITED

A 360PAY COMPANY

# Understanding Customs Duty

*Whitepaper*





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# Understanding Customs Duty

A Comprehensive Guide to Import  
Duties and Trade Compliance

## **What You'll Learn**

This whitepaper provides essential knowledge about customs duty, classification, origin, and valuation, the three pillars of customs compliance that every trader needs to master.

# CONTENTS

<b>What is Duty?</b> .....	1
<b>Types of Duty</b>	
Customs Duty	
Excise Duty	
Safeguarding Duty	
Countervailing Duty	
Anti-Dumping Duty	
Tariff Rate Quotas	
<b>Do I Always Need to Pay Duty?</b> .....	2
<b>Three Pillars of Customs</b> .....	3
<b>Customs Classification</b>	
The HS System Structure	
Interpretation of the Harmonised System	
<b>Origin</b> .....	5
Rules of Origin	
Preferential Rules of Origin .....	6
Non-Preferential Rules of Origin	
<b>Valuation</b> .....	7
Valuation Methods	
Additions to Customs Value .....	8
What is deduction?	
Place of Introduction	
<b>Incoterms and Freight Inclusion</b> .....	9
<b>Example Calculation of Duty and VAT (GB Import)</b> .....	11
<b>Special Procedures</b> .....	12
<b>Delaying or Avoiding Duty Payment</b>	
Customs Warehousing	
Other Special Procedures	
<b>How do I Pay Duty?</b> .....	13
<b>Is Duty the Same as VAT?</b>	
<b>Do Duty &amp; VAT Work the Same in Other Countries?</b> .....	14
<b>Glossary of Customs Terms</b> .....	16

# What is Duty?

Duty is a tax placed on goods that originate from outside the territory and is paid at point of importation into Free Circulation.

## Types of Duty

### Customs Duty

The most common kind of duty that is imposed on goods. Generally, it is calculated as a percentage of the customs value. There are other duty rates, such as a set value per drained net weight or a set value per the amount of sugar in the product. It could also be calculated as a combination of the two of these types, compound duty rate. Sometimes, free trade agreements can lower or remove entirely the amount of customs duty that may be payable on a consignment.

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### Excise Duty

A duty placed on 'Excise' products. Excise products are alcohol, tobacco, oils and hydrocarbons. Excise duty calculations differ depending on the type of excise product being moved.

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### Safeguarding Duty

This is a tax placed on goods that could be imported in unforeseen increased volumes and damage the importing country's industry. This is applied once a set volume of that product has been imported, via a quota system.



### Countervailing Duty

This tax allows importing markets to offset any government subsidies from the exporting countries. This is in attempt to tackle subsidised imports.

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### Anti-Dumping Duty

This is a tax that is imposed on products to prevent cheaper offshore markets flooding the domestic market and undercutting their prices.

Both Countervailing and Anti-Dumping duties can be applied provisionally whilst an investigation is completed in the exporting country. This may eventually be cancelled, or it may become definitive.

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### Tariff Rate Quotas

Quotas allow a set amount of a commodity code to be imported at a reduced rate of duty. Sometimes these will apply to specific countries of origin as well. Quotas can be preferential or non-preferential origin.

# Do I Always Need to Pay Duty?

There are a few key factors to consider. Customs practitioners refer to 'the Three Pillars of Customs':

- Customs Valuation
- Country of Origin
- Customs Classification

All combine to determine how much (if any) duty is due. A carefully planned out supply chain will have taken into account all of these and will know the correct value of the goods being shipped and how that value has been reached, the correct country of origin of the goods, taking into account any processing that may or may not have caused a change in origin, as well as the classification of the product.

Additionally, one factor that could change the amount of duty due is the presence of free trade agreements or available tariff quotas.

So, the short answer is no, you may not always need to 'pay' duties, but you should always be aware of the liabilities that could have been. If goods can benefit from preferential rates of duty, they are not nil rated, they could have an MFN rate of 10% but it is the preferential agreement that can reduce this down to 0% payable. Should it be established later that the origin had not been determined properly, the 10% may become due on those goods.

Similarly, some companies may make use of special procedures. Though this doesn't waive the requirement to pay duty, it will delay when the duty is due. For example, goods stored in a customs warehouse, the duty is only due when the goods are released into free circulation from the warehouse. If they are re-exported or moved to different special customs procedure, duty is not due until the time they are released for free circulation.



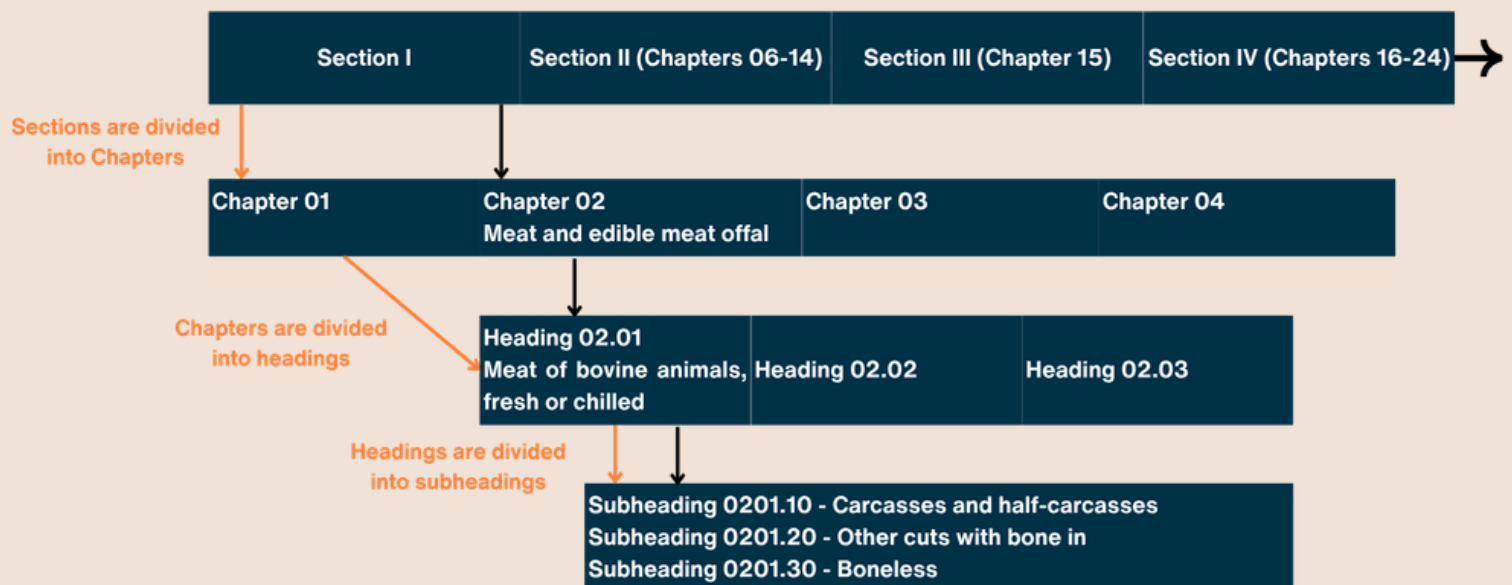
# Three Pillars of Customs

## Customs Classification

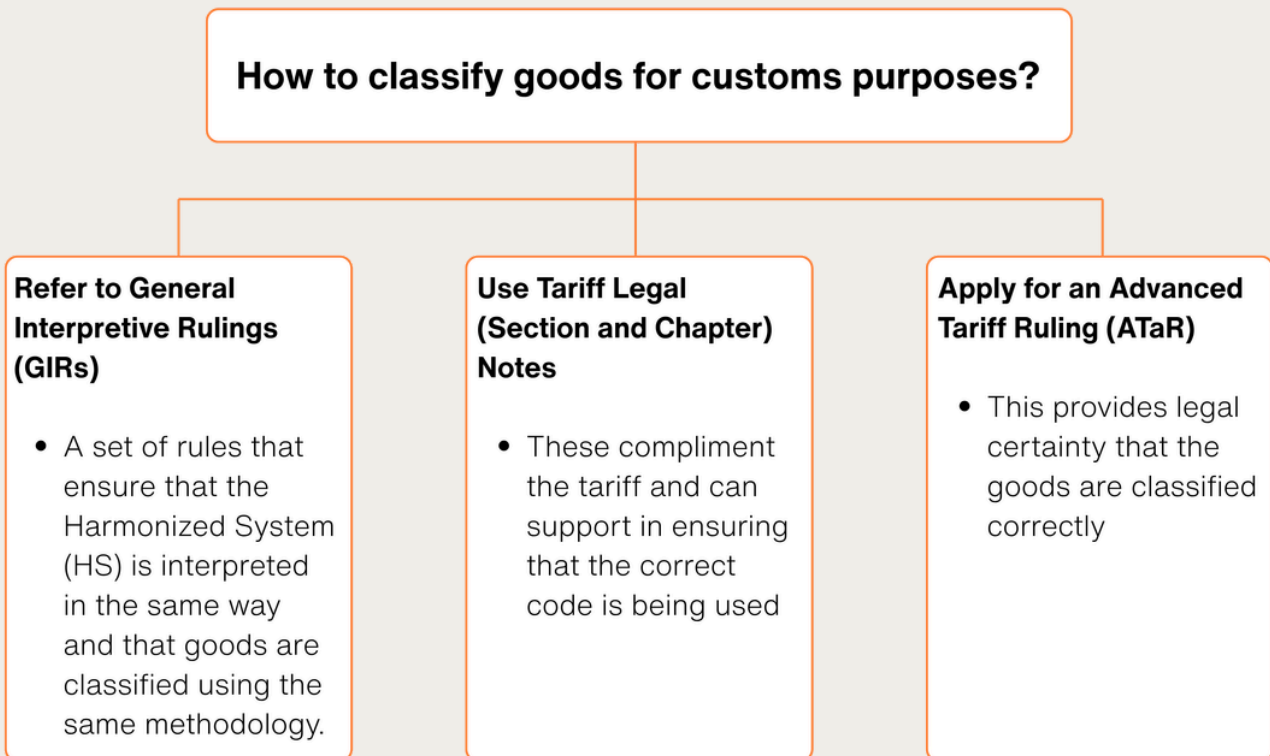
Tariff Classification begins with the globally recognised 'Harmonised System' (HS). The HS assigns 6-digit codes that are translated to country-specific tariff codes for import or export. In the UK, you should refer to the UK Trade Tariff. Though HS Codes are important for helping to determine how much duty is due, it also shows what import or export controls may apply to the goods.

## The HS System Structure

Illustration of the Structure of the HS



# Interpretation of the Harmonised System



As you move through tariff chapters, the production process generally becomes more cumbersome and as a result there is more room for interpretation of each code. Chapter, Explanatory and Legal Notes help with classification.

Legal Notes appear at the start of every chapter. Explanatory Notes complement the HS as the official interpretation of the structure. They allow users to understand the scope of each heading, as well as listing which products are or are not covered by the headings. These Explanatory Notes provide commentary on the meaning of the legal notes.

General Interpretive Rules (GIRs) support goods classification and ensure that all users of the HS interpret each code in the same way. The HS is frequently reviewed and updated so the codes you use must be also reviewed. The HS gets a full review every 5 years.

If you are uncertain as to how your goods should be classified, you can apply for an Advanced Tariff Ruling (ATaR) (if in the UK). This gives the importer legal certainty that correct duties will be paid against the product they are importing. These are valid for three years as legal documents. In the EU, the similar concept is referred to as 'Binding Tariff Information' (BTI).

## Origin

As before, chapters earlier in the Tariff are easier to determine where they originate from. The origin of raw material will often be where the animal was reared or the land in which the plant grew. It's important to remember that when determining origin that country of export does not always equal the country of origin so do check the rules of origin for specific products.

Determining the correct origin is important to ensure that the correct duty rates are applied at import. For example, anti-dumping duties are often placed on household items with Chinese origin. Why? Because the Chinese market can produce those products at rates much cheaper than the UK can. Therefore, to counteract low rates of production, the UK puts high rates of anti-dumping duty on them. The higher rates of duty (in addition to base level customs duty) are designed to stop the flooding of the UK market with products that were produced at rates the UK cannot compete with.



## Rules of Origin

It's important to understand the concept of 'Rules of origin'. Rules of Origin determine what duty treatment the product should be subjected to, should they receive the MFN (Most Favoured Nation) rate, or can they benefit from Preferential Treatment? Rules of origin set out the guidelines stating what parameters a product must be within to be classed as 'originating'.

Just like with Tariff classification, you can get guidance on the origin of your products. An advanced ruling of Origin can legally certify the origin of a product.

## Preferential Rules of Origin

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Trade agreements allow goods to trade between territories with reduced or 0% rates of duty. They can also loosen import controls on products.

However, this privilege comes with the requirement to evidence that the product is indeed 'originating' in the territory stated. Proof of origin is vital in this requirement, as should the product be found to not have met these requirements after clearance has taken place, the 'MFN' rate of duty will be retrospectively reclaimed. In addition to this, many companies or suppliers include a 'Supplier's Declaration of Origin' on their invoice, though it should be noted that simply including a written declaration on an invoice is not the same as meeting rules of origin. Evidence will likely need to be obtained that the supplier is in fact using the correct rules of origin when setting the country of origin.

## Non-Preferential Rules of Origin

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These rulings apply in the absence of other trade agreement. As a result, trade happens on a most favoured nation (MFN) basis.

These rules apply when there aren't any preferential trade agreements that could apply to the products. These can be used to enforce national legislations (think Anti-Dumping duty, quotas and license requirements for example).

Where anti-dumping duties are concerned, non-preferential origin can be as important as preferential origin is under regular trade agreements.

By proving goods are of non-preferential origin from country A, anti-dumping duties applicable to country B cannot be applied. This is especially relevant when importing goods from countries neighbouring one that does attract anti-dumping duties. For example, bicycles from Malaysia will come with a non-preferential origin certificate, as bicycles from China carry high anti-dumping duty rates.



## Valuation: Additions and Deductions

The customs value is the basis on which duty is calculated. For example, goods with a value of £100 and a duty rate of 10% would pay £10 in customs duty. Consider import VAT in this calculation as well.

### Valuation Methods

There are six valuation methods used to determine customs value:

- Transaction Value - The price paid or payable for goods when sold for export
- Identical Goods Value - Based on identical goods sold for export to the same country
- Similar Goods Value - Based on similar goods sold for export to the same country
- Deductive Value - Based on the selling price in the importing country
- Computed Value - Based on cost of production plus profit
- Fall-back Method - Reasonable means consistent with WTO principles



## Additions to Customs Value

- The cost of transport
- The cost of insurance
- Loading and handling charges
- Container charges
- Terminal charges
- Royalties and licence fees
- Value of materials, components, and tools supplied by the buyer
- Other charges involved in moving the goods from one place to another

The above should only be included in the customs value up to the place of introduction to the UK border.

## What is a Deduction?

A deduction is a cost removed from the customs value, specifically, transport costs incurred after the place of introduction into the UK. For example, if goods arrive at Dover, the onward freight from Dover to London or Manchester can be deducted from the customs value.

## Place of Introduction

The place of introduction is the point at which goods cross the customs frontier. This varies by transport mode:

- Sea - the port of arrival
- Air - when the aircraft crosses into UK airspace
- Road - the first customs office the goods pass through



# Nine Steps of Shipping Process



## Incoterms and Freight Inclusion

International Commercial Terms (Incoterms) are 3-digit codes that show which party is responsible for which part of a supply chain movement. Understanding Incoterms is crucial for determining whether freight costs need to be added to the customs value.

Incoterms	Export Customs Clearance	Loading on Truck	Carriage to Port or Export	Freight to Port or Import	Import Customs Clearance	Import Duties	Import VAT	Carriage to Delivery	Unloading	Storage
<b>EXW</b>	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER
<b>FCA</b>	SELER	SELLER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER
<b>CPT</b>	SELLER	SELLER	SELLER	SELLER	BUYER	BUYER	BUYER	SELLER	BUYER	BUYER
<b>CIP</b>	SELLER	SELLER	SELLER	SELLER	BUYER	BUYER	BUYER	SELLER	BUYER	BUYER
<b>DAP</b>	SELLER	SELLER	SELLER	SELLER	BUYER	BUYER	BUYER	SELLER	BUYER	BUYER
<b>DPU</b>	SELLER	SELLER	SELLER	SELLER	BUYER	BUYER	BUYER	SELLER	SELLER	BUYER
<b>DDP</b>	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER

# Incoterms Freight Responsibility & Invoice Inclusion

Incoterm	Freight Type	Freight Included in Invoice?
DDP (Delivered Duty Paid)	Freight pre-paid (Seller pays)	Yes. Seller has accounted for freight in invoice value.
DAP (Delivered At Place)		
DPU (Delivered at Place Unloaded)		
CIP (Carriage Insurance Paid To)		
CPT (Carriage Paid To)		
CFR (Cost & Freight)		
CIF (Cost Insurance Freight)		
FCA (Free Carrier)	Freight Collect (Buyer pays)	No. Buyer arranges this so will not be on supplier invoice.
FOB (Free On Board)		
FAS (Free Alongside Ship)		
EXW (EX Works)		

# Example Calculation of Duty and VAT (GB Import)

## Scenario:

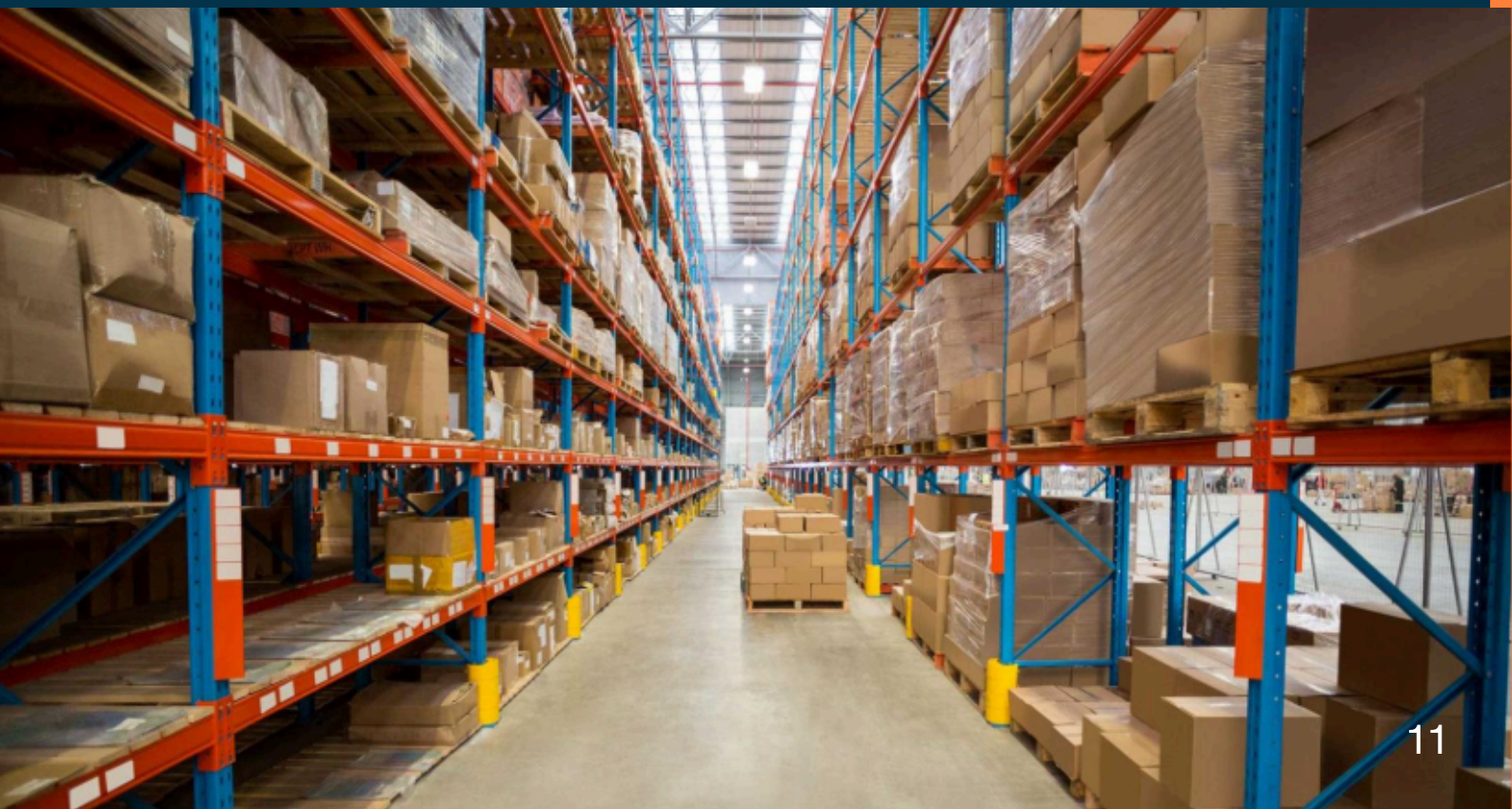
- EXW Value of the goods = £5,000
- Freight charge from supplier to Exit Port = €1,000
- Insurance = £100
- Exchange Rate (January 2026): EUR to GBP = 1.1382
- MFN Duty Rate = 5%
- VAT Rate = 20%

Note: Duty and VAT will be paid in local currency, always factor in the applicable exchange rate.

## Calculation:

1. Convert EUR freight to GBP:  $€1,000 \div 1.1382 = £878.58$
2. Customs Value =  $£5,000 + £878.58 + £100 = £5,978.58$
3. Customs Duty =  $£5,978.58 \times 5\% = £298.93$
4. VAT Base =  $£5,978.58 + £298.93 = £6,277.51$
5. Import VAT =  $£6,277.51 \times 20\% = £1,255.50$

Total Import Charges:  $£298.93 + £1,255.50 = £1,554.43$



# Special Procedures

## Delaying or Avoiding Duty Payment

Special procedures are customs regimes that allow duty and VAT payments to be delayed or, in some cases, avoided entirely. These usually require additional approval from the government.

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### Customs Warehousing

Customs warehousing allows goods to be stored in a designated facility without payment of customs duty and import VAT. This is particularly useful for:

- Goods awaiting re-export
- Stock management and distribution
- Deferring duty payment until goods are sold
- Processing or manufacturing before release into free circulation

Duty and VAT only become payable when the goods are released from the warehouse into free circulation in the UK. If goods are re-exported or moved to another special procedure, no duty is payable.

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### Other Special Procedures

**Inward Processing** - Import goods temporarily for processing, then re-export without paying duty

**Temporary Admission** - Temporarily import goods (e.g., exhibition items, professional equipment) with full or partial duty relief

**End Use** - Reduced or zero duty rate for goods put to a specific end use

**Outward Processing** - Export goods for processing abroad and re-import with duty only on added value

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# How Do I Pay Duty?

## CDS Cash Account

Every company registered on the Customs Declaration Service (CDS) receives a cash account they can top up and use to pay import duties.

## Duty Deferment Account

Companies can apply for a Duty Deferment Account, which consolidates all monthly duty payments into a single direct debit. This is beneficial for cash flow.

## Postponed VAT Accounting (PVA)

Most UK VAT-registered businesses use PVA. This allows import VAT to be declared and reclaimed simultaneously on the same VAT return, rather than paying upfront at the border.

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# Is Duty the Same as VAT?

No. Both are taxes applied on goods at import, but they serve different purposes.

## Customs Duty

Tariffs applied based on classification, origin and valuation. Designed to protect local trade.

## Import VAT

Applied at a near-flat rate. In the UK, 20% is charged on the customs value inclusive of duty paid. Some goods are zero-rated. Note: VAT rates vary by country — Ireland charges 23%, for example.

In short: duty protects domestic markets. VAT ensures imported goods are taxed in the same way as domestically produced ones.

# Do Duty & VAT Work the Same in Other Countries?

The concept does remain largely the same. You pay duty and import VAT on the goods you import. However, the things that may vary are the rates of duty and the commodity codes used. Each country will have their own version of the tariff and the eventual 7th, 8th, 9th and 10th digits may vary after the 6-digit HS code has been found.

Duty is often levied against production volumes in a territory. Anti-Dumping, Countervailing and Safeguarding duties have already been mentioned as being levied based on the production volumes of particular products. Duty works in similar ways, if a country can produce a product in high enough volumes to support the demand in that country, it is likely that the duty rates on it will reflect that. On the contrary, if you, as a nation, cannot produce particular products then the duty rates may not be as high (not always the case).



In terms of VAT, Standard VAT Rates can vary. In the UK, it is well known that standard VAT is worth 20% of the cost of the product. A lot of countries are the same, Austria, Serbia and Moldova, for example. Some nations charge much more, others, much less and some, none at all. So, it is vital that you are aware of what the import VAT will be on your products as well. The UK sets zero rates on most of its food products but this isn't the case in every country, so this should be considered so that the correct VAT is paid at import.

Compare here the commodity structures in HS Code 080550 (Lemons (Citrus limon, citrus limonum) and limes (citrus aurantifolia, citrus latifolia)).

## Harmonized Tariff Schedule of the United States Revision 1 (2026)

Annotated for Statistical Reporting Purposes

II  
8-8

Heading/ Subheading	Stat. Suf- fix	Article Description	Unit of Quantity	Rates of Duty		
				General	1 Special	2
0805 (con.) 0805.50		Citrus fruit, fresh or dried: (con.) Lemons ( <i>Citrus limon</i> , <i>Citrus limonum</i> ) and limes ( <i>Citrus aurantifolia</i> , <i>Citrus latifolia</i> ):				
	0805.50.20	Lemons.....		2.2¢/kg <sup>21</sup>	Free (A+, AU, BH, CL, CO, D, E, IL, JO, KR, MA, OM, P, PA, PE, S, SG)	5.5¢/kg
		Certified organic.....	kg			
	10	Other.....	kg			
	50	Limes:				
	0805.50.30	Tahitian limes, Persian limes and other limes of the <i>Citrus latifolia</i> variety.....	kg	0.8% <sup>22</sup>	Free (A*, AU, BH, CL, CO, D, E, IL, JO, KR, MA, OM, P, PA, PE, S, SG)	35%
		Certified organic.....	kg			
	20	Other.....	kg			
	40	Other.....	kg			
	0805.50.40	Other.....	kg	1.8¢/kg <sup>21</sup>	Free (A, AU, BH, CL, CO, D, E, IL, JO, KR, MA, OM, P, PA, PE, S, SG)	4.4¢/kg

Figure 1 - United States Tariff (080550)

[Vegetable products](#) [Section II](#)

└ [Edible fruit and nuts: peel of citrus fruit or melons](#) [Chapter 08](#)

    └ [Citrus fruit, fresh or dried](#) [0805](#)

        └ [Lemons \(citrus limon, citrus limonum\) and limes \(citrus aurantifolia, citrus latifolia\)](#) [0805 50](#)

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[Open all headings](#)   [Close all headings](#)

Description	VAT	Third country duty	Supplementary unit	Commodity code
▼ <b>Lemons (citrus limon, citrus limonum)</b>				<b>0805 5010</b>
- Fresh	0%	6.00 %		0805 5010 10
- Other	0%	6.00 %		0805 5010 90
▼ <b>Limes (citrus aurantifolia, citrus latifolia)</b>				<b>0805 5090</b>
- Fresh	0%	12.00 %		0805 5090 10
- Other	0%	12.00 %		0805 5090 90

[Open all headings](#)   [Close all headings](#)

Figure 2 - UK Trade Tariff (080550)

It can be seen above that commodity code structures used for import in each nation differ greatly as do the duty rates. The best way to decide the appropriate code is by reading tariff notes and making use of the GIRs.

In the US, they use 0805502010 if the lemons are 'certified organic' as per General Statistical Note 6. Otherwise, use 0805502050. In the UK, you should decipher whether the lemons are Fresh or not.

# Glossary of Customs Terms

**Addition:** A value added to the invoice price to determine the final customs value. Includes transport, insurance, loading, handling, container and terminal charges up to the place of introduction.

**Advanced Ruling of Origin:** A legally binding application in the UK that certifies the origin of goods, providing importers with legal certainty on origin status.

**Advanced Tariff Ruling (ATaR):** A legally binding decision on the classification of goods, valid for three years in the UK.

**Anti-Dumping Duty:** A tax imposed on products to prevent cheaper offshore markets flooding the domestic market.

**Binding Tariff Information (BTI):** The EU equivalent of ATaR - a legally binding classification decision.

**CDS (Customs Declaration Service):** The UK Government system for making customs declarations, replacing the legacy CHIEF system.

**CDS Cash Account:** A payment account available to all traders registered on CDS, which can be topped up to pay import duties.

**Commodity Code:** A number used to classify goods for import or export, determining duty rates and controls.

**Countervailing Duty:** Tax to offset government subsidies from exporting countries.

**Customs Value:** The value of goods used as the basis for calculating duty.

**Customs Warehousing:** A special procedure allowing duty-free storage of goods until released into free circulation.

**Deduction:** A cost removed from the customs value - specifically transport costs incurred after the point of introduction into the UK.

**Duty Deferment Account:** An account allowing traders to consolidate all monthly duty payments into a single direct debit. Requires a separate HMRC application.

**Excise Duty:** Duty on specific products: alcohol, tobacco, oils, and hydrocarbons.

**EXW Value (Ex Works):** The value of goods at the seller's premises, before transport, insurance or other charges are added.

**Free Circulation:** The status of goods that have cleared customs and can move freely within the customs territory.

**Free Trade Agreement (FTA):** Agreement between countries to reduce or eliminate trade barriers.

**General Interpretive Rules (GIRs):** Rules ensuring all users of the Harmonised System classify goods in a uniform way.

**Harmonised System (HS):** The globally recognised 6-digit classification system for traded goods.

**Incoterms:** 3-digit International Commercial terms showing responsibility for supply chain costs.

**MFN (Most Favoured Nation):** Framework requiring equal trade treatment for all WTO members in absence of FTA.

**Non-Preferential Rules of Origin:** Determine origin when applying MFN treatment and measures like anti-dumping duties.

**Place of Introduction:** The point where goods cross into the customs territory (varies by transport mode).

**Postponed VAT Accounting:** Mechanism allowing VAT-registered businesses to declare and reclaim import VAT simultaneously.

**Preferential Rules of Origin:** Criteria required to benefit from FTA preferential rates or reduced controls.

**Rules of Origin:** Criteria a product must meet to be deemed 'originating' in a particular country.

**Safeguarding Duty:** Tax on goods imported in increased volumes that damage domestic industry.

**Special Procedures:** Customs regimes allowing duty and VAT payments to be delayed.

**Tariff Chapter:** The first two digits in the HS Code structure.

**Tariff Headings:** The third and fourth digits in the HS Code structure.

**Tariff Rate Quotas:** Set amounts of goods that can be imported at reduced duty rates.

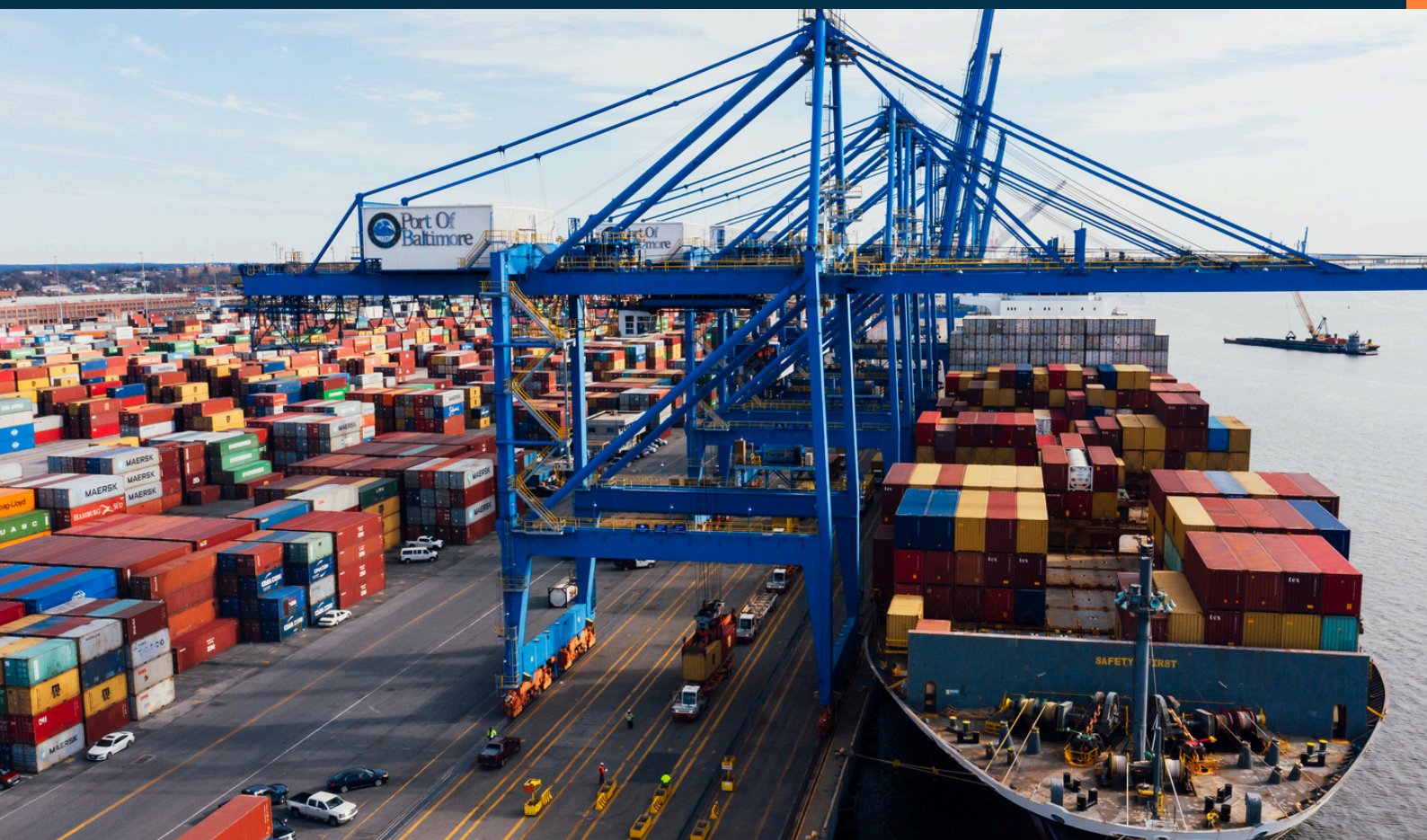
**Tariff Subheadings:** The fifth and sixth digits in the HS Code structure.

**Trade Agreements:** Arrangements between countries to reduce trade barriers.

**Valuation Method:** Process to determine the value of goods for customs purposes.

**VAT (Value Added Tax):** Tax added to goods and services.

**WTO (World Trade Organisation):** International organisation regulating global trade.





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