IoD Inspiring business

Import finance

Many businesses find importing requires greater financial flexibility and reserves than buying from a UK supplier. Rather than buying on credit, you must often commit finance well before delivery.

Negotiating the right agreement with your supplier can cut the cost and effort involved. You also need to ensure that you can deal with the additional paperwork and customs clearance requirements.

The right balance

Terms of delivery

Payment methods

Financing your payments

VAT and duty

Making payment

1. The right balance

The terms you negotiate with your supplier must provide an acceptable balance, taking account of risks, costs and the need to arrange financing.

The payment method you agree will determine the risks you each carry

- Your supplier will want a payment method that reduces the risk of being paid late, too little or not at all.
- You will want to reduce the risk of paying for goods that are not as ordered, are faulty or damaged, or arrive late or not at all.

There will be extra costs that do not apply when buying locally

These include:

- Transaction costs such as payment costs
- Administrative costs. All imports require the right paperwork.
- Transport and insurance costs. The terms of delivery will determine your share of these.
- VAT and duty or excise duty (if applicable).

Both you and your supplier may need to arrange financing

- You may have several options for financing your payments.
- It may be appropriate for the party with access to cheaper financing to carry more of the financing burden. The financing burden you each assume can be reflected in the price you agree.

As the customer, you may be in a strong negotiating position

- Managing imports can be complicated. You may not want the additional complexity of dealing with foreign currencies or customs clearance.
- Many businesses use a freight forwarder or import agent to handle the process and advise on issues such as terms of delivery. Trying to put too much of the burden on your supplier may affect their willingness to deal with you or the price they charge.
- There may be limits to what you can agree. For example, some countries have legal restrictions, such as foreign exchange controls, which you must comply with.

Paperwork

You must have the right documentation to enable you to import goods.

Goods in free circulation within the EU generally require minimal documentation

- It is good commercial practice to accompany goods with a commercial invoice that quotes the VAT numbers of all parties involved.
- Certain goods (eg agricultural or chemical goods, or goods subject to excise) require special documentation.
- If your annual imports exceed £1.5 million, you must provide Intrastat declarations to Customs for statistical purposes.

Goods coming from outside the EU require more documentation

Your supplier may need to provide you with:

- an original invoice (plus three copies);
- a copy of the transport document;
- any documentation required to prove the origin of the goods if you are claiming preferential entry (reduced or zero rates of import duty for certain goods imported from certain countries).

For imports worth more than £6,500, a valuation document is normally required

- This is a declaration by the importer (ie you) or sometimes a third party.

For goods from outside the EU, you may also need an import licence

- Contact your trade association to find out which government department issues licences for your type of goods. For example, the Department for Environment, Food & Rural Affairs issues import licences for livestock and some foods.

2. Terms of delivery

The terms of delivery specify how responsibility and costs are shared

They should cover:

- who is responsible for packaging and labelling of the goods;
- who is responsible for arranging and paying for each stage of the delivery (including any taxes);
- who is responsible for insuring the goods over each stage of the delivery;
- when ownership of the goods passes from the supplier to you.

There is a range of internationally recognised standard terms known as Incoterms

- The terms used will depend on how the goods are to be transported and what you negotiate with the supplier.
- With 'ex-works', you arrange to collect goods from the supplier's premises, taking immediate ownership and responsibility. With 'delivered duty paid', your supplier is responsible for delivery to your premises and pays any import duties and taxes
- Several other terms are used where responsibility and costs are shared in specified ways. Detailed information on all standard terms is published as Incoterms 2010 by the International Chamber of Commerce.

Taking more control over the delivery process may cut your overall costs and risks

- It can be difficult to ensure that the exporter is handling things in the way you would like while delivery remains the exporter's responsibility.

3. Payment methods

Open account trading is common within the EU

- Open account trading is also common for suppliers with whom you have an established relationship or when you are acting as the supplier's agent (eg a car dealer), particularly if goods are consigned to you or sold on a sale or return basis.
- The supplier offers you credit (eg 30 days) in the same way as a UK supplier. Confirm exactly when the supplier expects to receive payment (eg 30 days after you assume control of the goods in accordance with the terms of delivery).
- You may be able to negotiate a discount by paying sooner.

Suppliers may want to use documentary collections

- This can reduce the supplier's risk and improve their financing position.
- The supplier draws up a bill of exchange. You can negotiate the terms of the bill (eg payment 'at sight' or after 30 days) depending on how you and your supplier want to share the financing burden.
- For a bill that is payable at sight, payment becomes due when the bill and shipping documents are presented to you (usually through your bank).
- For a term bill (eg 30 days), you accept the bill on presentation, guaranteeing to make payment when due.
- Once you accept a bill, you have a contingent liability that will reduce the amount of credit available from your bank.
- Your supplier may be able to use an accepted bill as a means of raising finance.
- The responsibility for bank charges will be agreed in the contract with your supplier and noted on the bill of exchange.

Suppliers may want to use a documentary credit (or letter of credit) to minimise their risk

- You apply to a bank to open a letter of credit. The bank agrees to pay the supplier once the conditions of the credit are met.
- The conditions will require delivery of the correct goods, on time, to the right place. Using a documentary credit also allows you to ensure that your supplier provides the paperwork you need.
- Your supplier will usually require a 'confirmed, irrevocable' letter of credit. This is the most secure form of payment. The banks guarantee to pay, even if you, the customer, default.
- A 'term' documentary credit lets you make payment after a set term, and usually involves the issue of a bill of exchange. The cost of the documentary credit will include interest charges to cover this.
- You have to pay your bank for issuing the documentary credit. Your bank will reduce the amount of other credit available to you.
- Your supplier can use the documentary credit as a means of raising finance.
- If your supplier requires the protection of a documentary credit but would otherwise be prepared to offer different terms, you can use a standby letter of credit.

Occasionally a supplier may ask for payment in advance for all or part of the order

- This is most often used for one-off purchases of low value.

- As well as carrying the financing burden, you are at risk from unscrupulous or incompetent suppliers. You have little or no protection if the goods are faulty or never arrive.
- Asking only for a deposit and never sending the goods is a common trick.

4. Financing your payments

Your bank, or specialist import finance companies, can provide a range of financing options to suit your circumstances.

You can use an ordinary bank loan or overdraft

- You might use an existing overdraft facility for small amounts.
- You may get a more favourable interest rate by dealing with your bank's international trade department (for example, at the same time as arranging a letter of credit).
- For £100,000 or more, a fixed-term commercial bill drawn on your bank and then discounted by the bank can be more cost effective.

You can arrange financing in a foreign currency

- You might do this if you are being invoiced or have other expenditure in that currency.
- You need to manage your foreign currency exchange rate risk.

You may be able to use the goods you are importing as security for financing

- For example, if you are importing goods that you plan to sell on.

If you use an agent to handle delivery of the goods, they may offer financing

- You may be able to negotiate a credit line with a freight forwarder to cover their charges.

Foreign currencies

An established exporter will almost always be able to quote and invoice you in pounds

- You may want to negotiate payment in a foreign currency, if it results in other concessions from your supplier.
- If you agree to pay in a foreign currency, you will be exposed to a foreign exchange risk.

You can fix the exchange rate by entering into a forward foreign exchange contract

- You agree to buy the foreign currency from your bank at a fixed price at an agreed future date.

- The cost of the transaction is included in the rate you are quoted and depends on the current exchange rate and relative interest rates.

A euro bank account gives you flexibility in buying from countries that use the euro

- If you both export to and import from the eurozone, euro sales can fund euro purchases and cut your exchange risks.
- Converting into and out of the euro remains an exchange risk as the value of the pound fluctuates against the euro.

5. VAT and duty

Unless buying on delivered-duty-paid terms, importers are generally responsible for arranging customs clearance and paying any VAT and duty.

Import VAT of 20% is raised on all imports of standard-rated goods

- You need only account for VAT for goods acquired within the EU. You account for input tax as soon as you take possession of the goods.
- For goods imported from outside the EU, import VAT must normally be paid before the goods are released by Customs. You also need to pay VAT on any import duty.

There are ways of deferring payment

- If you import regularly, you can operate a deferment account, settling your VAT on a rolling basis. You will require a bank guarantee.
- If you need to store the goods before selling them on, you can store them in a customs warehouse. VAT (and duty) only become payable when the goods leave the premises.
- If you intend to re-export the goods after processing them, you can apply for Inward Processing Relief (IPR). VAT (and duty) only become payable if you decide to sell the goods in the UK.

You may be required to pay import duty

- There is no duty on goods that are in 'free circulation' within the EU. Goods are in free circulation if they originate from an EU country, or have already been imported with all customs charges paid, into an EU country.
- For goods that are imported from outside the EU, the rate of duty will depend on the product and the country of origin. Rates of duty can vary suddenly and without warning, and can have a significant effect on the value of goods.

6. Making payment

Electronic transfer systems are fast, straightforward and secure

- You can usually arrange for a same day or overnight transfer.
- A typical transfer cost might be £20 for amounts up to £10,000.
- Your supplier's bank may delay crediting the funds to the supplier's account and may also charge the supplier.

Other payment methods can incur lower charges but take longer and are less secure

- The most common is a banker's draft, issued by your bank and payable to your customer.
- A banker's draft can be issued in any major currency. Your bank will charge you for issuing the banker's draft, typically starting at £10.
- You send the banker's draft to your supplier, who can cash it on receipt.

You may want to consider opening an overseas bank account

- This can be useful if you make regular small payments to suppliers in a particular country. Having a local account can reduce costs.
- The bank account is usually in the local currency.
- You can periodically transfer funds from the UK to that bank account (if necessary, using a foreign exchange transaction to convert the funds to local currency).

Signpost

- Find guidance on export procedures from HM Revenue & Customs (HMRC).
- Make a customs enquiry to HMRC (0300 200 3700).
- Find guidance on Intrastat from HMRC.
- Find a trade association relevant to your sector through the Trade Association Forum.
- Find guidance on import licences on GOV.UK.
- Order a copy of Incoterms 2010 from the International Chamber of Commerce.
- Search for a freight forwarder belonging to the British International Freight Association.

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