Global Trade Radar

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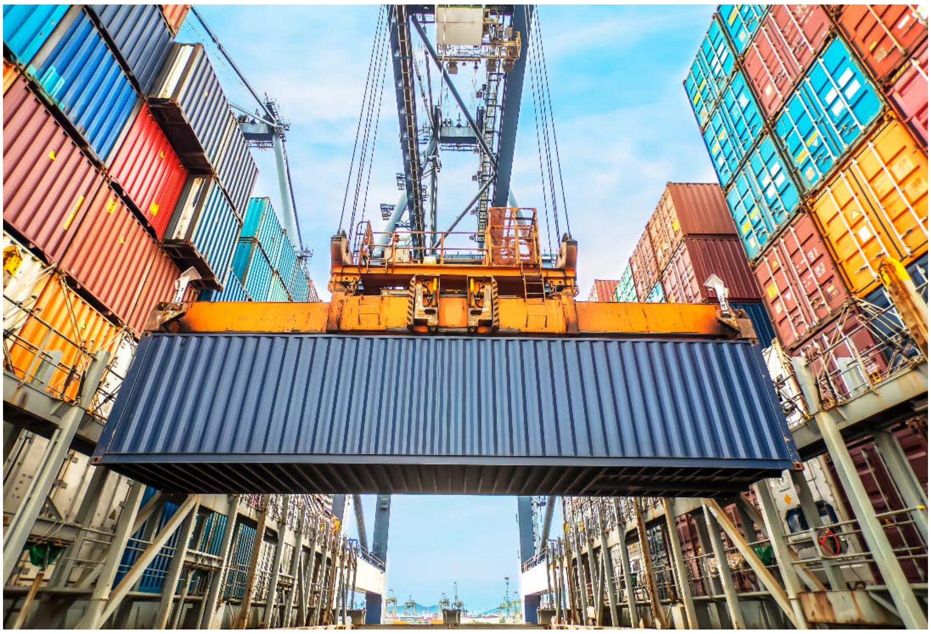
How to leverage what tax authorities and forward-looking companies are doing in customs and global trade

Whether the customs function is undertaken in-house or outsourced, obtaining complete insight into, for example, country of origin, compliance and duty-related concessions, is difficult. Companies often lack control over the end to end process and the compliance challenge is compounded by the need to understand the complexity of the customs environment which combines tariff classification, valuation, origin, Free Trade Agreements and other concessionary schemes.



Why is customs and global trade so high on the agenda?

More than ever, large companies are looking to indirect taxes. Indirect taxes and especially customs duties are typically above-the-line taxes, payable whether or not a company is making a profit. Therefore, a customs duty saving can significantly affect margins.

Traditionally, customs duties are imposed to protect local markets and to generate tax revenue. Liberalization of trade is a trending topic and increasing numbers of countries are concluding Free Trade Agreements (FTAs) to boost trade flows. This provides companies with greater access to customs concessions but also brings compliance requirements. Having visibility into the customs function is hence vital. However, whether the customs function is undertaken in-house or outsourced, obtaining complete insight into, for example, country of origin, compliance and duty-related concessions, is difficult. With significant regulatory changes on a global level this isn't getting simpler, and with other disruptions such as the UK's decision to leave the EU, further complexity and public interest can be expected.

Automation allows companies to now access and analyze their global trade flows. This allows companies to map their supply chain and to plan in new ways, to reduce trade costs through strategic sourcing or rationalizing the number of brokers being used.

What are the customs authorities doing?

Customs authorities globally are becoming more sophisticated in their use of analytics and hiring data analytics expertise to determine taxpayers' compliance. Authorities now can generate transaction-level data very efficiently, which helps them better understand taxpayer reporting. With this data, customs authorities can benchmark companies across industries, make industry-wide comparisons, risk assess companies for revenue audit purposes and identify outliers which merit further investigation. Before this technology, authorities would manually audit companies using a risk-based approach and sampling. Now, they come to the audit extensively prepared with analyses of company and competitor reporting.

This new computing power has produced a leapfrog effect. Countries in Asia and South America are learning from what the EU and US tax and customs authorities have done. Unrestrained by legacy systems, they are able to capitalize on the capabilities offered by data analytics. In Brazil, for example, the authorities can access customs-sensitive data from companies' systems. By comparison, although the EU has automated filing requirements, there is currently no common platform across the member states, which makes comparisons between countries difficult.

Just as country-by-country reporting allows for the automatic exchange of information between tax authorities, the Bali Trade Facilitation Agreement, which is in the process of being ratified, includes similar provisions for sharing data among customs authorities, and requires member countries to put in place an electronic environment to facilitate this sharing. Where tax and customs authorities are able to share data with each other, there is scope for further analytics to identify anomalies between the data used for tax reporting and that used for customs purposes. This will inevitably place pressure on companies to streamline and harmonize their systems, so that data for different purposes comes from the same source, and is at least consistent. Once such systems have been implemented, they can be integrated with customs analytics, to model and visualize data in real time. This could identify opportunities, have a better understanding of compliance, and optimize business models.

As the customs authorities are already using data analytics to assess compliance, multinationals have little choice but to take steps to improve the quality of their customs compliance. Those that do so before the authorities initiate an audit will be in a much stronger position to deal with inquiries or correct mistakes, than those who wait and see.

What are the challenges of compliance with customs requirements, and barriers to taking a more proactive approach?

Typically, the responsibility for customs reporting—if it has been kept in-house—sits with logistics or supply chain teams, rather than finance or tax professionals who might approach compliance in a different way. However, customs compliance and reporting is often outsourced, because companies lack resource, or deem outsourcing to be more (cost) efficient. As a result, and despite being liable for any compliance failures, the companies don't know what data has been reported on their behalf, and lack control over the end to end process. IT environments not designed to collect the required information, which frequently resides in multiple systems (such as finance, logistics, sourcing and sales) and includes other participants in the company's supply chain, further complicates matter. Even a company that nominates a team for this purpose will be reliant on many others to provide the data they need.

This complex web of reporting and responsibility makes monitoring a company's customs duty position costly and difficult. The compliance challenge is compounded by the need to understand the complexity of the customs environment which combines tariff classification, valuation, origin, Free Trade Agreements, and other concessionary schemes, creating a considerable volume of internal and external data to master. At an operational level, those responsible simply may not have visibility into the various trade lanes and stakeholders may be unaware of the risks and opportunities that a better understanding could provide.

How can Global Trade Radar help?

Global Trade Radar is Deloitte's proprietary, multi-jurisdictional customs data analytics solution. Global Trade Radar can give greater insight into companies' global customs profile, to facilitate informed decision-making, identify opportunities, and address compliance weaknesses. The majority of multinationals outsource their customs reporting to brokers, so lack the ability to generate insight, because the transaction level detail resides outside their own ERP systems. Global Trade Radar drills down to this level to provide a fuller picture.

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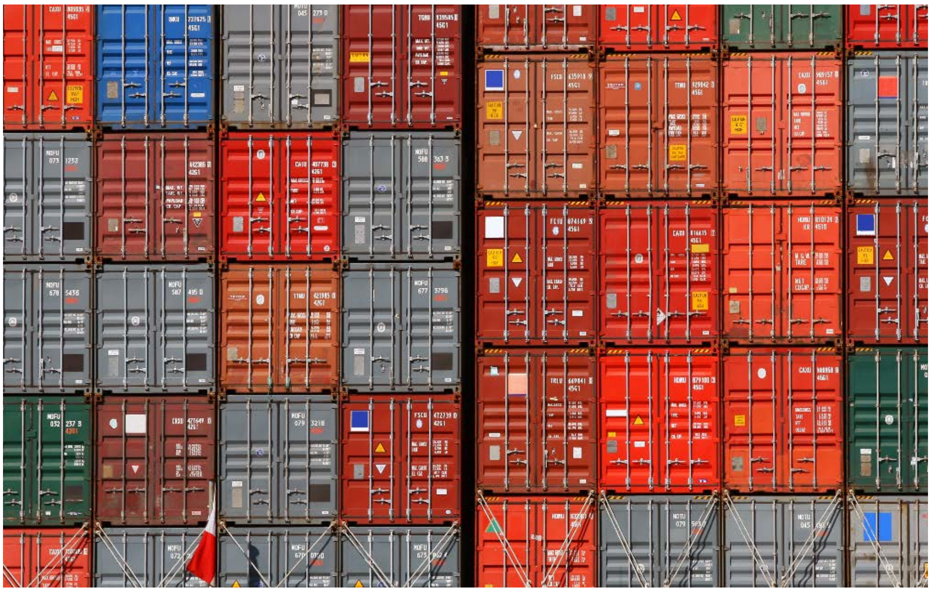

Global Trade Radar analyzes filed customs data, to give insight into the total value of reported transactions and the associated duty burden. It also identifies the countries involved, and the classifications declared. Visualizing trade and customs activities can illuminate how data is organized and controlled, and serve as a compliance health check, identifying where remedial action may be required. Global Trade Radar also identifies potential over or under payments where imports have been misclassified or preferential rates of duty under Free Trade Agreements have not been applied.

In our experience, a typical multinational can expect they have overpaid customs duty by not utilizing relevant FTAs. Identification of these circumstances; i.e. where a relevant FTA has not been utilized can be an enduring benefit going forward, and can also result in repayment of duty where the claim is not out of time. Undertaking this process also identifies brokers being used, and can highlight which have the better, and worst, track records. By highlighting inconsistencies or inaccuracies, companies can correct master data files, and implement processes and controls to reduce the risk of similar errors in the future.

How does Global Trade Radar add value beyond compliance?

Global Trade Radar is helping companies respond to a changing environment where customs authorities are globally networked. Global Trade Radar gives insights that can help an organization to:

- Identify customs and trade-related risks for mitigation
- Discover opportunities to improve efficiency and quality
- Reclaim overpayments
- Change processes to prevent overpayments
- Correct misclassifications, to take advantage of available concessions
- Undertake a supply chain optimization review
- Analyze procedures with brokers and assess the number and quality of brokers used
- Align customs data with data in the company's ERP system

Global Trade Radar can help trade compliance teams offer more value, in many ways. Teams can drive additional efficiencies into supply chain cycle times by minimizing the risk that goods will be held up because of incorrect paperwork. Shortening the supply chain by just one day can make a significant contribution to a large company. Beyond compliance there are clear business benefits from using the tool.

What is around the corner?

Linking Global Trade Radar to the VAT module and the supply chain module allows for optimized decision-making. Bringing these three components together will also make it possible to go beyond benchmarking—which is already a powerful tool—to perform predictive analytics, identifying risks based on data and designing controls accordingly.

As customs authorities adopt the single window concept allowing parties involved in trade and transport to lodge standardized information and documents with a single entry point, companies that have used Global Trade Radar to get to grips with their compliance will be better able to take advantage of the efficiencies that the single window offers.

In addition, interoperability and exchange of information at a global level will facilitate the increase in horizontal auditing where compliance with obligations to all tax and customs authorities will be assessed at the same time. By getting control of their data, companies will feel more confident about multiple authority scrutiny.

Global Trade Radar is helping companies respond to a changing environment where customs authorities are globally networked.

Contact us

To learn more about how your organization can better understand its customs and trade profile, please reach out to a contact, below.

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