

# **THE CHARTERED INSTITUTE OF TAXATION**

## **ADVANCED TECHNICAL**

### **Cross Border and Environmental Taxes**

**May 2025**

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TIME ALLOWED

3 HOURS 30 MINUTES

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- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- Scots law candidates may provide answers referring to Land and Buildings Transaction Tax rather than Stamp Duty Land Tax.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2024/25 legislation (including rates and allowances) continues to apply for 2025/26 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- Additional marks may be awarded for presentation.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Litopa Ltd is a VAT registered retailer and sells adult clothing online through its own website to private individuals in the UK. It will shortly start selling to individuals in Europe (EU and non EU). Order values range from £100 to £250, excluding shipping.

All stock is manufactured by a third party in China and shipped to Litopa Ltd's warehouse in England (not a customs warehouse). When customer orders are received, the goods are packed and sent to the UK customer and the same process will be followed for overseas customers.

To enhance the customer experience, Litopa Ltd will act as importer of record in the customer location overseas.

If the customer does not like the goods, they are able to return them within 30 days of receipt. They print a returns label from Litopa Ltd's website, which includes postage for shipment back to the UK warehouse. The same process will apply to overseas customers. Litopa Ltd will act as importer of record in the UK for the returns.

A Hong Kong based company, Jujup Inc, has approached Litopa Ltd and asked it to provide storage and fulfilment services in relation to goods Jujup Inc will import into the UK for onward sale to UK customers. The goods will be stored in Litopa Ltd's warehouse following import and will be packed and sent to customers from there. Jujup Inc will have its own dedicated area in the warehouse. Litopa Ltd will levy a single monthly charge of £15,000 for all services.

**Requirement:**

**Explain the VAT and Customs Duty implications of the new activities, including options to reduce the Customs Duty cost on customer returns.** (20)

2. A UK company, GB Chutney Ltd, sells glass jars of fresh chutney in boxed gift sets of three jars. The gift sets are sold exclusively online through the company's own website to UK and overseas customers (with 75% of sales being to the UK and 25% overseas).

To protect the products during transit they are mounted in a plastic mould that separates and protects the jars inside the box. The plastic moulds are dyed blue to align with the company's brand and are imported from a third party manufacturer in China. 0.7 tonnes per month were imported from 1 January to 31 May 2025, and on 1 June 2025 they will place a bulk order of 14 tonnes for delivery by 20 June 2025 to be used in special edition summer sets. The moulds contain 42% recycled material.

Following a high incidence of customer complaints about broken jars following delivery, from 1 July 2025 additional plastic packaging will be used to fill the box that is used to ship the jars to further protect them. This additional plastic packaging material will be manufactured in the UK in the company's bottling site, using 27% recycled material in the form of recycled household plastic waste purchased from the local council and melted down. 12 tonnes of this will be manufactured within the first month to provide sufficient quantity to last for the next 12 months.

**Requirement:**

**Explain the Plastic Packaging Tax implications for the business, including the record keeping and compliance requirements.** (10)

3. PSU, a university based in England, has been engaged by Affumat SpA, an Italian pharmaceutical company, to undertake a clinical trial in the UK involving a new smoking cessation product. This trial will take six months and it will be managed by PSU and supervised by UK based General Practitioners (GPs). PSU will provide management and analytical services to Affumat SpA.

Participants in the trial will receive either the new product or a potato starch filled placebo (both in capsule form) and a portable electronic device, which will measure their nicotine levels. The participants will also be required to report their observations and symptoms in an app. The participants, who will be private individuals, will receive payments of £20 per month from PSU for their participation. Every six weeks, the participants will be required to attend a clinic for a medical examination and blood tests performed by a UK laboratory and the data and results will be passed to PSU for analysis. The GPs will invoice PSU for their services.

As part of the trial, Affumat SpA will ship the pharmaceutical product and the placebo to PSU, from where they will be delivered to the GPs for distribution to participants. The electronic devices will be leased from an Italian company by Affumat SpA and they will arrive in the UK in a single shipment from a manufacturer in China for distribution to participants. It is expected that 30% of them will be scrapped after six months and the remainder will be shipped to Germany for another stage of the trial.

**Requirement:**

**Discuss the VAT and Customs Duty implications of the above transactions. (20)**

4. Orne Vodka AB is a vodka manufacturer based in Sweden. Orne Vodka AB has approached Apla Ltd, a UK warehouse operator, for help with setting up a warehouse facility, where bottles of its vodka can be stored without Excise Duty needing to be paid immediately on import, in advance of sales by Orne Vodka AB in the UK.

**Requirement:**

**Explain the Excise Duty implications and the suspension conditions of the planned arrangements. (10)**

5. GB-established GBlecky Ltd imports goods and components at six sites across GB, which are then sold within GB and worldwide. The items imported are mainly finished, apart from at the Southampton site which also undertakes some processing. It does not operate in Northern Ireland.

Its growth over the years has been by acquiring other businesses, though many of the previous procedures have continued to operate at the various sites.

It has held Authorised Economic Operator – Customs (AEOC) and Authorised Economic Operator – Safety and Security (AEOS) status since January 2018 at which point its Deferment Account Guarantee was reduced to 30%.

The latest monitoring visit by HMRC, which began in June 2024, identified the following issues, which had not been detected by GBlecky Ltd:

Aberdeen

Footwear, including high value trainers, are imported and stored in its own Customs Warehouse. HMRC have identified that several imports have been entered onto the stock system showing lower quantities of goods imported than were invoiced. There is no evidence that GBlecky Ltd queried this with the suppliers. Also, HMRC’s stock checks show that many lines have unexplained losses, which on initial checking are likely to be due to internal fraud and thefts by staff.

Manchester

HMRC have detected that staff are not following a number of documented procedures around physical security, security of data and internal checks before preferential duty rates are claimed. Despite GBlecky Ltd re-educating the site staff and explaining the importance of the rules, spot checks by HMRC have continued to identify breaches.

HMRC have advised GBlecky Ltd that if the issues are not resolved in the next few weeks they will have to suspend GBlecky Ltd’s Authorised Economic Operator authorisations for 60 days and potentially revoke the status thereafter.

Southampton

At its Southampton site, GBlecky Ltd imports and processes goods under a full Inward Processing authorisation. Bills of Discharge are submitted on time.

Due to the small size of this site GBlecky Ltd uses a nearby third-party Customs Warehouse to store its imported components before processing and processed products prior to release to Free Circulation or Re-Export as orders dictate. This part of the business is expanding and GBlecky Ltd is looking to rent premises in the local Freeport and applying to be a Freeport Business.

**Requirement:**

- 1) **Explain the impact of suspension and revocation of Authorised Economic Operator – Customs (AEOC) and Authorised Economic Operator – Safety and Security (AEOS) status on GBlecky Ltd and discuss what steps it could take to avoid revocation.** (12)
- 2) **Discuss the Freeport Business application process and how the issues raised by HMRC may affect this.** (8)

**You should NOT discuss the appeals process.**

Total (20)

6. NIByco Ltd is established in Northern Ireland. It sells bicycles in Northern Ireland only and until August 2024 it only imported them from suppliers based in China.

On 25 August 2024 the EU published a Regulation imposing Anti-Dumping Duty on imports of bicycles originating in China from 1 September 2024.

On 3 September 2024 one of NIByco Ltd’s Chinese suppliers, ChiWheels Ltd, advised that as a result of the Regulation it was ceasing production in China and would instead open a factory in Malaysia. Its new Malaysian-based subsidiary, ChiMal Sdn Bhd, supplied NIByco Ltd’s orders from this facility from October 2024.

In November 2024 another one of its Chinese suppliers, ShenzBike Ltd, stopped supplying bikes from China. Instead, bicycles were supplied by BanglaBike Ltd, a subsidiary of ShenzBike Ltd in Bangladesh. The quality remains the same because the components were shipped from China to Bangladesh for assembly before shipping to Northern Ireland. BanglaBike Ltd provided Certificates of Origin so that NIByco Ltd did not pay Anti-Dumping Duty and could claim the preferential Customs Duty rate.

On 26 March 2025 the EU announced an investigation into possible circumvention of the Anti-Dumping Duty measures on Chinese-originating bicycles involving Malaysia. This Regulation instructed the customs authorities to register imports of bicycles consigned from Malaysia (regardless of where they originate) from 1 April 2025 for a period of nine months (“the registration period”).

On 4 April 2025 ChiMal Sdn Bhd advised NIByco Ltd that it was ceasing production but another ChiWheels Ltd subsidiary, called TaiWhe Ltd, would begin supplying it from Taiwan with effect from June 2025.

Duty Rates

	<u>EU</u>	<u>UK</u>
Customs Duty rate including China, Malaysia and Taiwan	15%	12%
Anti-Dumping Duty Other Companies Rate, (including those named in question)	40%	Not applicable
Preferential Rate (Including Bangladesh)	0%	0%

Some Chinese-based companies named in the Regulation attract lower Anti-Dumping Duty rates on production of an invoice containing wording specified in the Regulation.

**Requirement:**

- 1) Describe the purpose of the registration period and likely outcomes at the end of it.

(6)
- 2) Explain the risks involved and the commercial decisions NIByco Ltd needs to make with regard to suppliers changing the country they supply from, in these circumstances.

(14)

Total (20)