

## **SARS REQUEST FOR INFORMATION**

This RFI document sets out the business requirements that SARS has for  
CUSTOMS VALUATION DATABASE / FISCAL RISK TOOL,  
to be considered by the Bidder in compiling a proposal.

### **VALUATION DATABASE [FISCAL RISK TOOL]**

#### **BUSINESS REQUIREMENTS SPECIFICATION (BRS)**

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## 1 DOCUMENT CONFIGURATION DATA

### Usage of Terms in This Document

- References to Other Documents in the RFI pack
- Reference is made to various WCO documents available on the WCO web page.  
<http://www.wcoomd.org/en.aspx>

	Acronym	Description
	WCO	World Customs Organisation
	WTO	World Trade Organisation
	GATT	General Agreement on Tariffs and Trade
	RFI	Request For Information
	AIP	Advance Import Payments
	VDB	Valuation Database
	HS	Harmonized System

## 2 INTRODUCTION

World Trade Organization (WTO) require their members to have a good knowledge and appreciation of the Agreements on Valuation and the Rules of Origin. In addition, the World Customs Organization's (WCO) Harmonized Commodity Description and Coding System Convention (HS) is used as the member's basis for their customs tariffs and trade statistics. These 3 areas form the core of revenue management for border processing.

There are six WTO methods of determining valuation. Valuations presents how a customs administration might best assess when goods have been deliberately undervalued by the importer in order to evade revenue owed at the border.

## 3 BACKGROUND

The WTO Valuation Agreement, General Agreement on Tariffs and Trade (GATT) provides for a Customs valuation system that is primarily based on the transaction value of the imported goods, which is the price actually paid or payable for the goods when sold for export to the country of importation, with certain adjustments (GATT Article 8). The Agreement provides a single system that is fair, uniform and neutral for the valuation of imported goods for Customs purposes, conforming to commercial realities and outlawing the use of arbitrary or fictitious Customs values.

In December 2004, the WCO published guidelines on 'A national valuation database as a risk assessment tool' (D/2004/0448/27 E), which sought to guide and regulate the utilisation of the valuation database as a risk assessment tool along with other risk tools used by Customs.

The WCO provides various Instruments, Compendiums, Training Material, Case Studies, relating to Customs undervaluation including:

- WCO training on Customs valuation as part of its Knowledge Academy for Customs and Trade
- WCO Customs Valuation Case Studies.
- WCO Customs Transfer Pricing Studies.
- WCO Guide to Customs Valuation and Transfer Pricing.
- WCO Customs Valuation Compendium.
- WCO Technical Committee on Customs Valuation (including Advisory Opinions, Commentaries, Explanatory Notes and Case Studies)

Undervaluation and transfer pricing is a global concern for many Customs Administrations who, like SARS, have a revenue collection mandate.

## 4 REQUIREMENT

### 4.1 Use of a Database

- i. Customs will use the database as a risk assessment tool to assess potential risk regarding the truth or accuracy of the declared "value" for imported goods.
- ii. The Database will enable Customs to compare the declared value to previously accepted Customs value(s).

- iii. Large difference between the declared value and the databases value(s) for that product could constitute a potential risk factor, any such difference must be considered along with other potential risk factors, such as the need to call for supporting documentation.
- iv. Where the application of appropriate database technology indicates the existence of potential risk in well-defined circumstances, Customs may apply a number of measures. For example, Customs may place the operations of a particular importer under scrutiny and take appropriate monitoring action.
- v. In other cases where there are concrete indications that the declared values represent a risk with respect to their truth or accuracy, and after taking into account all the relevant risk factors the Customs Administration has doubts about the truth or accuracy of the declared value may result in the initiation of a valuation audit.
- vi. The database can also be used as a risk assessment tool to perform cross-checks in order to target specific import declarations for examination.
- vii. Valuation database should feed into current risk assessment, linking to other aspects of the import/export operation, such as origin, tariff code number, importer's profile, exporter's profile, etc.
- viii. In an automated database, virtually all of this data could constitute key-words providing search access. For example, doing a search on "country of origin" should, at least, make it possible to find information about all importations of goods from the country concerned during a specified period; at best, it should provide a range of information about the type of goods exported from that country, etc.

## **4.2 Data to be included in a database**

- i. Data to be included in the database should be based on relevant elements from the WCO Customs Data Model including the following:
  - Supplier information
  - Commodity input cost
  - Product brand and model
  - Reference pricing
  - Model / Spec / Grade of product
  - Retail sale price
  - Advance Import Payment (AIP)
  - Adjustment information as per Article 8 of GATT (e.g. assists, royalties, selling commissions etc.)
- ii. A set of key data elements can be extracted for each importation and transferred into the database. These elements may include, inter alia:
  - Customs entry number
  - Customs entry date

- Harmonized System code
  - Country of origin
  - Country of export
  - Importer's name
  - Importer registration number
  - Quantity
  - Unit quantity code
  - Currency
  - Freight terms (e.g. FOB, CIF etc.)
  - Declared Customs value
  - Total duty paid
  - Valuation method used
  - Details of Customs controls at time of clearance
- iii. The data to be included in the database is generally the data found in the import declarations and supporting documents of previous importations. The database may also include other pertinent and reliable data for risk assessment purposes.

#### **4.3 Validity of the Data**

- i. In order to properly perform its function as a risk assessment tool, data in the database should be recent and up-to-date.
- ii. Recent and up-to-date may depend on the commodity involved the frequency of price fluctuations, rates of exchange, and other pertinent factors of the economy.
- iii. Protection and availability of data
- Where business-confidential information is stored in a database, relevant national provisions and legislation for protection of data and confidentiality should be taken into account. Article 10 of the GATT Agreement requires that: "all information which is by nature confidential, or which is provided on a confidential basis for the purposes of Customs valuation shall be treated as strictly confidential by the authorities concerned who shall not disclose it without the specific permission of the persons or government providing such information, except to the extent that it may be required to be disclosed in the context of judicial proceedings."
  - Access to the database should be password-protected and restricted to Customs personnel who have responsibilities for risk and valuation control. The majority of users should require read-only access. The ability to add, amend or delete data should be further restricted to a small number of personnel responsible for managing and updating the database. Specific instructions and guidelines should be made available to all users, clearly indicating the importance of protecting business-confidential information and reminding users that database prices cannot be applied directly as a substitute Customs value.

#### **4.4 Cross-checking Ability**

- i. The database can also be used as a means of performing cross-checks in order to target those importations which are likely to contain a potential risk and, from that starting point, select the import and export declarations concerned for examination.
- ii. if the buyer/importer is related to his supplier/seller, and this relationship has influenced the price, and that this has caused the declared value to be rejected, there could be a function in the system which selects all future declarations concerning transactions between that buyer/importer and that supplier/seller, so that Customs will be in a position to check whether the relationship still exists and, if so, whether it is still producing the same effects.
- iii. Similarly, if it has been established in the past - under the provisions of paragraph 1 (a) of Article 8 - that commissions (other than buying commissions) have been paid in connection with a transaction between a buyer/importer and a supplier/seller, and the declared value was adjusted as a result, the system should be able to select all future declarations for transactions between that buyer/importer and that supplier/seller, so that Customs can check whether this type of payment is still being made and, where appropriate, adjust the declared value accordingly.
- iv. The same would apply to several other provisions of the Agreement (conditions of application of Article 1, goods and services supplied by the buyer, royalties, proceeds of resale, etc.).

#### **4.5 Monitoring Mechanism**

A proposal for monitoring mechanism is required in line with WCO Guidelines to ensure that the information in the database is updated on a regular and continual basis.

### **5 OUTCOMES**

- i. Continuously engaging with all key stakeholders to ensure alignment and support on changes that need to be implemented.
- ii. Developing a system that will provide a real-time interface to product pricing, to compare invoicing against; and
- iii. Assessing capacity requirements and augmenting the existing capacity gaps to ensure all checks and balances are enforced and quality assured.
- iv. Training must be provided to the VDB users and to the Risk, Case Selection and Valuation divisions.

**END**