



Modernisation of ship and aircraft stores

Who is likely to be affected?

Airlines, the Shipping Industry, especially the cruise ship businesses and those businesses engaged in the supply of ship and aircraft stores. Although 'stores' include any goods for use in a ship or aircraft, this measure is primarily concerned with duty free alcohol and tobacco products.

General description of the measure

The measure will amend the law to clarify that surplus stores can remain on board a ship or aircraft without payment of duty and make provision for the introduction of procedures to account for duty retrospectively on stores consumed in port or on an intra-UK flight and impose penalties for failing to do so. It will also make provision to allow the Commissioners for Her Majesty's Revenue and Customs (HMRC) to make regulations for an authorisation procedure to control goods moving from warehouses to be shipped as stores, in order to address an area of revenue risk, and to specify the circumstances in which goods can be shipped or carried as stores without payment of duty. These circumstances will include the journeys on which stores can be shipped or carried without payment of duty. The measure also imposes a penalty for contravening any provision of the regulations.

Policy objective

The measure will update the legislation relating to ship and aircraft stores to provide flexibility to facilitate trade practices and increase controls on areas of revenue risk. This will enable HMRC and Border Force to work with the industry to improve compliance and is in line with our wider commitment to bring customs and excise law up to date to protect customs and excise revenues.

Background to the measure

In August 2011 HMRC issued a consultative document, *Modernising Customs and Excise Law*. This highlighted the need to bring customs and excise law up to date to protect revenues, reduce the tax gap and better reflect modern trade practices. HMRC announced that it was the intention to reassess requirements and legislation currently used to control ships' and aircraft duty free stores to improve compliance in this area.

The measure will simplify the processes and procedures relating to ships' stores, making it easier for our customers to fully understand their obligations, whilst tackling diversion and the illegal landing of stores.

This measure will put current practices relating to ship and aircraft stores on a firm legal base and enable HMRC and Border Force to work with the industry to improve compliance through the introduction of stronger control measures. It will also enable HMRC to introduce future changes to processes by secondary legislation enabling trade and HMRC to respond quickly and flexibly to changes in business requirements.

Detailed proposal

Operative date

The power to make Regulations came into force on the date that Finance Bill 2014 received Royal Assent. The other provisions will come into force by an appointed day order to coincide with the coming into force of the Regulations. This is expected to be a date in early 2015.

Current law

The Customs and Excise Management Act (CEMA) 1979 section 1(4) and section 1(4)(A) provide in what circumstances goods for sale on a ship or aircraft can be treated as stores.

CEMA section 39 provides that surplus stores may be entered for warehousing for future use as stores.

CEMA section 61(1) provides that HMRC may direct the quantity of goods that may be carried in a ship or aircraft as stores, the description of vessel on which goods carried as stores may be used in a port without payment of duty, and the quantity of such goods, and the authorisation to be obtained for the supply and carriage of, and the procedure to be followed, in supplying, any goods as stores.

CEMA section 61 (2) to (4) specify the descriptions of vessel on which goods can be shipped as stores without payment of duty.

Revisions to primary legislation and the introduction of Regulations

Legislation was introduced in Finance Bill 2014 to amend section 1(4) of CEMA to provide that goods for sale to persons carried on a ship or aircraft will be treated as stores if they are to be sold by retail in the course of a journey made by the ship or aircraft.

Section 39 of CEMA was amended to clarify that surplus stores can remain on board a ship or aircraft without payment of duty.

Section 61(1) to (4) of CEMA were replaced with regulation making powers to specify the circumstances when goods can be shipped or carried as stores without payment of duty, the journeys on which stores can be shipped or carried without payment of duty, the authorisation to be obtained, to impose conditions or restrictions on the supply, shipping or carriage of such goods and the procedure to be followed in supplying such goods.

The Regulations also make provision requiring duty to be paid on goods shipped or carried as stores without payment of duty where those goods are consumed in port or on an intra-UK journey and the way in which, and time at which, such duty has to be paid.

Due to the need for flexibility for HMRC to react to changes in commercial practice, the Regulations allow the Commissioners to detail some of the requirements and simplifications in a Public Notice.

Summary of impacts

Exchequer impact (£m)	2014 to 2015	2015 to 2016	2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020
	nil	nil	nil	nil	nil	nil
	The Regulations provide a sound legal basis for modern industry practice and enable businesses to simplify procedures, streamline operations and reduce costs. There is unlikely to be any Exchequer impact from this.					
	The changes also mean that there is a sound legal basis for any enforcement and compliance action that HMRC or the Border Force may take. This should help guard against future revenue loss and reduce the risk of legal challenge and associated costs. This is likely to result in a modest benefit to the Exchequer although the amount is difficult to quantify.					
	No significant costs are associated with the introduction of the content of the Regulations.					

Economic impact	No significant economic impact is anticipated.
Impact on individuals and households	There is no impact on compliant individuals and stakeholders.
Equalities impacts	No equality impacts in relation to any protected characteristic have been identified in relation to these proposals.
Impact on business including civil society organisations	The Regulations are expected to have a negligible impact on most businesses. The cruise ship and airline industry will benefit from the introduction of procedures to account for duty retrospectively on stores consumed in port or on an authorised intra-UK flight. The new requirement for an authorisation procedure to control goods moving from warehouses to be shipped as stores will impose some new requirements but will impact only on a small number of specific businesses. The introduction of penalties will not affect compliant businesses.
Operational impact (£m) (HMRC or other)	The Regulations provide legal powers to underpin and support existing operational practice. There will only be a minimal cost to HMRC and Border Force.
Other impacts	<u>Small and micro business assessment:</u> the majority of businesses affected are likely to be medium to large businesses in the airline and shipping industry. The vast majority of small and micro businesses will not be affected by the measure as only a small number of businesses in general supply stores, most of whom are large or medium size. Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Neill Brettell on Telephone: 03000 588055 or email: neill.brettell@hmrc.gsi.gov.uk.