

## **Leaflet No. 8. VALUE FOR DUTY PURPOSES – A brief guide to VDP**

### **1. Introduction**

This leaflet shows how to calculate the customs value often referred to as Value for Duty Purposes (VDP) as well as value of exported goods and should be treated as a guide only. For more detailed information, reference should be made to sections 85 and 88B of the Customs and Excise Act and the fifth and sixth schedules of the same Act.

### **2. Why calculate Customs Value?**

Most duties are calculated as a percentage of the value of imported or locally manufactured goods for purposes of assessing the amount of any customs duty or excise duty payable. Therefore it is important that importers and manufacturers establish accurate values of their imported or locally manufactured goods.

### **3. Calculation of Customs Value of imported goods.**

The VDP of imported goods is derived from the cost, Insurance and Freight (CIF). There are six methods that can be used to determine the VDP, starting with the first method and only proceed to the other methods in the order they fall if the VDP can not be determined on each step. The methods are as follows:

#### **3.1 Transaction Value** – Price actually paid or payable including freight, insurance and other incidental costs to the extent that they are paid, if –

- There are no restrictions to the use of the goods;
- There are no conditions to deter determination of VDP;
- No part of the proceeds on resale would accrue to the seller, unless included in the value;
- No relationship exists to influence the value.

The VDP for **leased/hired goods** should be the rental charge paid or payable if it meets the requirements of a transaction value including insurance, freight and other incidental costs.

#### **3.2 Transaction Value of Identical goods** – Price of identical goods imported by another importer into Zambia at about the same time, from the same source, including insurance, freight and other incidental costs.

#### **3.3 Transaction Value of Similar goods** – Price of similar goods imported by another importer from the same source, including insurance, freight and other incidental costs. The goods may be produced by a different producer within the same country of export.

3.4 **Deductive Value** – Price at which identical or similar goods are sold in their greatest quantity in Zambia.

3.5 **Computed Value** – Price based on cost of production, insurance, freight and other costs incurred in the delivery of the goods to Zambia. Usually this method can only be used where the importer and the seller are related or if the producer is the exporter of the goods being valued.

3.6 **Residual basis of Value (Fall-back)** – Price arrived at by going through methods 1 to 5 (3.1 to 3.5) flexibly.

#### **Notes**

- The importer should ensure that the VDP arrived at using the first method is supported by evidence that is acceptable and genuine.
- The 4<sup>th</sup> method (3.4) can be skipped.
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The following costs should not be included in the VDP:

- Installation or technical aid after the goods are imported.
- Transportation or insurance of the goods within Zambia.
- Taxes payable in Zambia.
- For other exclusions, please refer to the sixth schedule.

#### **4. Conversion of Values in Foreign Currency into Kwacha**

Where values have been expressed in the currency of another country, the Commissioner –General determines the rate of exchange to be used. The Customs and Excise Division distributes two lists of exchange rates per month, covering the periods “**1 to 15**” (first list) and “**16 to the last day** of the month (second list).

Values in foreign currency are to be converted into kwacha at the rate applying on the date of-

- Importation of goods if final clearance is to be effected immediately at the entry port (border).
- Making of first entry (report order or removal in bond (RIB)) for goods allowed to be removed from the border to another customs port for final or further clearance; or
- First assessment for other goods.

#### **5. How to Calculate VDP for Excise duty on imported goods.**

The value for the purposes of assessing excise duty on imported goods is the sum of VDP for customs duty purposes and customs duty payable if any on the goods.

## **6. How to Calculate VDP for Excise duty on goods manufactured in Zambia.**

Similar to the calculation of VDP of imported goods, there are seven (7) methods that can be used to determine the VDP and these are as follows:

- 6.1 The **price** at which a licensed manufacturer of excisable goods offers them for sale on the open market..
- 6.2 **Lowest price** at which **identical goods in the same /almost the same quantities** are sold within Zambia by another licensed manufacturer on the open market.
- 6.3 **Lowest price** at which **identical goods in different quantities** are sold in Zambia by another licensed manufacturer on the open market.
- 6.4 **Lowest price** at which **similar goods in the same/almost same quantities** are sold in Zambia by another licensed manufacturer on the open market.
- 6.5 **Lowest price** at which **similar goods in different quantities** are sold within Zambia by another licensed manufacturer on the open market.
- 6.6 **Price at which the goods would fetch**, less profit and other costs beyond the manufacturing level
- 6.7 **Computed value** comprising the cost of production, profit and other costs up to the manufacturing level.

**Note:** A sale in the open market means that-

- The price is the sole consideration;
- The price is not influenced by any condition or relation between the buyer and seller; and
- No part of the proceeds on resale would accrue to the seller.

## **7. Value of Exported Goods**

The value for customs purposes of exported goods from Zambia is the Free on Board at the place of dispatch or customs port of shipment.