

Free Zones / Free Ports / Freeports



As the UK prepares for BREXIT there is much talk about the opportunity that Free Ports might bring to the country. However, do you know the technical definitions belonging to these terms which it has to be said are sometimes used rather loosely and which can be quite confusing?

A true Free Zone or Free Port is a special economic area.

So what is a Free Zone?

A Free Zone is a special area within the customs territory of a country. Goods placed within this area are free of import duties, VAT and other import charges.

Free zone treatment applies to goods coming into the country (Third country goods) which have not yet paid import duty and VAT as well as to goods which have already been imported and on which import duty and VAT have been paid (Cleared goods).

Third country goods stored in the Free Zone are considered as not yet imported to the Customs territory of the country whereas Cleared goods stored in a Free Zone can be considered as already exported.

On importation, free zones are mainly for storage of Third Country goods until they are imported into the country. No import declaration has to be lodged to get the goods into the Free Zone. Import and export declarations only have to be lodged when the goods leave the Free Zone.

In addition, there may be special reliefs available in Free Zones from other taxes, excises or local duties. These will differ from one zone to another and can be a major reason for traders to locate factories, processing plants and other activities in the Free Zone. They therefore encourage inward investment and job creation.

Any industrial, commercial or service activity may be permitted in a Free Zone depending on the rules imposed by the country concerned. Such activities usually have to be notified to the local customs authorities in advance. The customs authorities may impose prohibitions or restrictions on the activities.

Cleared goods may be entered, stored, moved, used, processed or consumed in a Free Zone.

The only Free Zone currently in operation in the UK is on the Isle of Man.

Confusingly such areas can also be called 'Free Ports'. However, around the world 'Free Port' has also taken on a more specialist meaning.

The specialist meaning of 'Free Port'

In this case a Free Port is a specific warehouse, usually at a port or airport and sometimes in a Free Zone. These warehouses were originally places to store goods in transit but they have become very popular for the storage of high value items, namely fine art, gold and wine. Such items from Third Countries do not incur any duty when brought into the Free Port and if they are sold whilst in the Free Port they are not subject to VAT and in many cases they are not subject to withholding tax on capital gains. For owners and potential owners of high value items this is clearly of great interest. Such goods can also be stored in these Free Ports for an unlimited amount of time, thus making them the perfect place to hold investment assets. Some of the best known and largest such Free Ports are currently located in Geneva, Singapore and Luxembourg. In many cases whilst the inventory of goods held in these Free Ports is available to local Authorities, data regarding ownership is not.

Freeports – notice the one word spelling.

This is often used in the UK as a trading name for retail outlet sites such as 'FreePort Braintree' in Essex or 'Freeport Fleetwood' in Lancashire. These retail outlet 'villages' which thrive on offering discounted items took their name from the company that originally owned them 'Freeport Retail plc'. They do not enjoy the benefits of 'Free Ports' or 'Free Zones'.

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