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Global Trade Partners, Inc.

Opportunities for Duty Reduction

Introduction

As an importer, you may be able to reduce duty costs. US Customs and Border Protection (CBP) offers may ways for importers to save on duty payments and improve cash flow, but most importers do not know what options are available. This document will highlight some possible opportunities.

First Sale

An importer may structure transactions to benefit from the first sale basis of Customs valuation. For example, a manufacturer in one country sells product to a trading company in another country, who then sells the product to an importer in the US. In this sort of multi-tiered transaction, the importer can pay duties based on the price from the manufacturer to the middleman, rather than on the price it paid to the middleman.

This option takes planning, as the middleman may be unwilling to reveal its markup. Goods must also be clearly destined for export to the US at the time of the first sale. Using first sale can result in significant duty savings on the difference in prices between the first and second sales.

Duty Drawback

Duty drawback is the ability to recover 99% of the duties on imported goods that are subsequently exported or destroyed. The US offers three types of drawback: unused merchandise, rejected merchandise, and manufactured goods. Anti-dumping and countervailing duties are not recoverable under drawback.

Drawback may be claimed by the importer or the exporter. The timeframe to file varies, but generally, a drawback claim must be filed within three years of the date of importation. If considering duty drawback, the filing party must have the ability to track import shipments to the related export shipments.

Filing a drawback claim requires a Customs broker who specializes in the process. Not all Customs brokers are able to file for duty drawback.

Free Trade Agreements

A free trade agreement (FTA) is an agreement between two or more countries to reduce trade barriers amongst themselves. FTA's open up foreign markets to US exporters, as they reduce barriers to US exports. They also spur import growth through a reduction or removal of duties. The merchandise processing fee is exempt from many free trade agreements, increasing cost savings.

The US currently participates in more than 20 free trade agreements, and the number continues to grow. Some agreements include North American Free Trade Agreement (NAFTA), US-Korea Free Trade Agreement, Dominican Republic-Central America Free Trade Agreement, and US-Australia Free Trade Agreement.

In order for an importer to capitalize on the duty reduction and merchandise processing fee benefits of an FTA, it must follow the agreement's rules. Customs will require an importer to provide evidence that a shipment was actually produced in the FTA country, such as a Certificate of Origin.

Periodic Monthly Statements

Under periodic monthly statement processing, Customs allows an interest free, once a month duty payment. Duties are paid on the 15th business day of the month following the month of Customs release, essentially extending the importer's payment terms from 10 business days to 30-45 days. The importer can use that capital longer and improve its cash flow.

Bonded Warehouses

Bonded warehouses are used by importers to delay duty and tax payments and store goods that will be imported at a later time or ultimately be exported. Harbor maintenance fee, if applicable, is paid at the time the goods are entered into the bonded warehouse. Duties, taxes, and other fees, such as the merchandise processing fee, are paid when the goods are withdrawn for consumption.

Goods may remain in the warehouse for up to five years from the date of importation. Bonded warehouses are typically used for storage purposes only, but goods may be manipulated with Customs' prior approval.

An importer has several options when wishing to withdraw the merchandise from a bonded warehouse. The goods can be withdrawn for consumption with duties and taxes paid on the rates in effect at the time of withdrawal. The goods can be withdrawn for export. The goods can move in bond to another port. Finally, the goods can be transferred to another bonded warehouse.

Foreign Trade Zones

Foreign Trade Zones (FTZ's) are secure areas located at or near ports of entry, and are legally considered outside of the US Customs territory. Merchandise may be manipulated and further manufactured while in a zone. FTZ's save importers money by deferring duty payments and streamlining entry procedures with weekly entry summary reporting.

In addition, manufacturing processes in FTA's can lead to inverted tariffs. When goods are manufactured in a zone, the finished product may have a lower rate of duty than the foreign materials. Duties are not owed on labor, overhead or profit attributed to the FTZ manufacturing operations. If the same production operations were handled overseas, the value of labor, profit and overhead would be subject to US duties and taxes, as they would be included in the cost of the goods.

Goods may remain in an FTZ indefinitely, and domestic merchandise may be mingled with imported goods.

Temporary Import Bonds

Merchandise may enter the US temporarily without payment of duty or merchandise processing fees by posting a Temporary Import Bond (TIB). The intent of the import must be to export or destroy the merchandise within a certain period of time, not to exceed three years from the date of importation.

Just because goods may be in the US temporarily does not automatically qualify them for TIB treatment. They must satisfy the provisions specified in the Harmonized Tariff Schedule of the United States, heading 9813. Typical TIB conditions include articles to be repaired or processed; samples used for taking orders; articles for examination and reproduction; articles for testing, experimental, or review purposes; works of fine art or scientific apparatus for exhibition; and automobiles for show purposes.

Carnets

A carnet is an international Customs document that simplifies Customs procedures for the temporary importation of goods duty free. Carnets are typically used for commercial samples, professional equipment, and exhibition materials. The carnet is valid for one year, and acts like a passport, permitting unlimited entries and exits. A carnet does not exempt the holder from obtaining the necessary licenses and permits. Carnets are accepted in over 70 countries.

Conclusion

There are several legal – and acceptable – ways for an importer to lower its duty costs. The strategies outlined above may be used to lower costs, improve working capital, and increase competitiveness. These solutions are low-risk, so why not explore the possibility of using them?