



## Defining the “Price Actually Paid or Payable”

### Overview

All imported merchandise is subject to appraisalment by Customs. Through specific written procedures, Customs determines the value of imported goods through a valuation hierarchy. In many cases, Customs assigns a value to imported merchandise which may be different from the value appearing on a commercial invoice.

Many factors affect the imported value of your products, and it’s important to remember even buyer and seller relationships affect your customs valuation. Customs determines the value based on the “price actually paid or payable” for the goods. “Price actually paid or payable” reflects total payment for merchandise, less international freight and insurance charges. It also includes charges paid directly or indirectly to the seller such as packing costs, selling commissions, assists, royalties, licensing fees, and proceeds of subsequent resale.

Failure to properly understand customs value for your company’s merchandise can lead to time-consuming problems, including incorrect payment of duties and fees, misapplication of quotas, and fines and penalties.

### Additions to “Price Actually Paid or Payable”

Certain costs and payments associated with imported merchandise must be declared to Customs, to the extent they are not already included in the “price actually paid or payable.” These additions include packing costs, assists, and/or supplemental payments.

In the simplest of terms, packing costs refer to the price of all containers (exclusive of instruments of international traffic), and packing coverings used in placing merchandise for shipment to the United States. Price tickets, hang tags, and labels also constitute packing costs.

Assists include items like dies, tools, molding, raw materials, design, art, or engineering work supplied free of charge or at a reduced cost, by the buyer of imported merchandise to the supplier to make the product. In the case of design, art, or engineering work, it must be undertaken somewhere other than in the US. The value of assists to be added to the “price actually paid or payable” is the cost of acquisition if procured externally, or the cost of producing if made internally or by a related party. The value of all assists includes the cost of transporting the assist to the place of production of the imported merchandise.

Supplemental payments are comprised of proceeds of subsequent resale, quotas, tooling (if the seller reimburses the buyer), currency adjustments, royalties or licensing fees. The dutiability of royalty or licensing fees is determined on a case by case basis and depends on whether the buyer was required to pay the fee as a condition of sale of the merchandise to the US, and to whom and under what circumstances the fees were paid. In general, royalties or license fees for patents covering processes to manufacture the imported merchandise will be part of the dutiable value. However, there are exceptions, and GTPI helps your company assess how to best proceed.

## **Deductions from the “Price Actually Paid or Payable”**

International freight and cargo insurance charges may be deducted from the “price actually paid or payable.” However, the importer must have documentary proof of these charges, such as a separate line item on a commercial invoice or a rated bill of lading or airway bill.

## **Conclusion**

Customs valuation is not as simple as assuming the imported value is the same as the amount appearing on a commercial invoice. There are several variables that affect the dutiable value of goods. Failure to properly appraise imported merchandise may result in incorrect duty payments, misapplication of quotas, fines and penalties, all negatively impacting your bottom line. Fortunately, GTPI expertly guides you on how best to approach the issue - always pinpointing the proper global procedures to save your company money, which in turn enables you to keep your eye on the prize: growing your business.