



10 Import Tax and Duty Mistakes You Can't Afford To Make

Shipping internationally can expand your business's reach and reputation – and provide a big boost to your bottom line. But venturing into the international shipping space can create massive headaches when it comes to tariff and duty rates. Every country has its own laws and rates, and businesses from different sectors face different compliance challenges when shipping overseas.



In this white paper, we take a look at some of the most common pitfalls experienced by companies shipping internationally. While many of these mistakes are most commonly made by businesses that have only recently begun to expand their shipping policies, even longtime multinational businesses can make costly tariff and duty mistakes. Check out this top ten list of potential problems to make sure you're not putting your business at risk of significant fines and penalties.

1

Assuming consistency between countries

Every new country your customers order from creates new tariff, import tax and duty obligations, with different rates, rules and forms. Customs procedures change at each international border, and compliance even in neighboring nations can look drastically different.

Take flip-flop sandals, for instance. If a flip-flop style sandal is made of leather, duty rates of 10% in the U.S. and 11% in Canada apply. But if you're selling plastic or rubber flip-flops, both countries change their rate – in Canada, it goes up to 16%, but in the U.S., the product is now duty-free.

2

Passing the buck down the supply chain

Faced with the difficulties of calculating tariff and duty rates, many companies decide to punt the issue to transportation and fulfillment providers. Some providers of these services may imply that they can calculate duty rates, but here's the secret they're not telling you: they have no obligation to get it right – if you fall out of compliance, you could be the one liable, not the shipping company that estimated an incorrect rate.

The truth is that personalized, tailored duty calculation by transportation providers might happen for large, enterprise-level customers, but small businesses are often left in the lurch with little guidance to rely on. If your providers make a mistake, prepare yourself for poor customer service and to see the monetary burden fall on your shoulders.

3

Using outdated information

It can be a lot of work to get accurate duty rates and customs charges for your entire product catalog. Often, once these rates have been calculated for a new country, complacency sets in – the rate sticks in your shopping cart system for years, with no updates in sight.

Of course, there's a problem here: rates and taxable products change all the time. A sustained drop in oil prices and changes in currency valuation have caused many world governments to search for new sources of tax revenue, and imports are being scrutinized more carefully than ever. A rate that was valid last year may no longer be current, and refused shipments (due to unexpectedly high import taxes) are the likely result of relying on old rates.

4

Misdeclaring and undervaluing goods

It's not supposed to happen, but a lot of businesses (especially smaller ones) have done it: deliberately undervaluing shipments of goods, or misdeclaring one type of item as another in order to avoid paying a higher total landed cost. Some companies, for instance, always fill out a low estimated value regardless of the actual product value in a shipment in order to sneak in under duty free or low-value customs policies.

Governments have noticed this tactic, and are cracking down more than ever. Customs authorities have developed profiling tactics that help them target shipments for detailed examination and evaluation. Customs processing delays, as well as major fines and penalties, can be expected if your company routinely engages in these practices.

5

Playing fast and loose with documentation

Forms, forms and more forms: international shipping can generate a lot of paperwork. It's important not only to keep everything but also to ensure that each form is properly filed and stored. Misplacing import and export paperwork, or being unable to easily search for documentation when it is requested, can lead to significant delays in processing shipments.

In the event of a customs audit, having full supporting documentation for your international transactions will lead to an easier and less costly audit process. Ensure that all documentation is stored with later access in mind – consider digital scanning to make cross-referencing easier.

Special alert: In some situations, countries may even revoke your import/export abilities completely if you misrepresent the contents of shipments – transacting across national boundaries is a privilege, not a right, and repeated abuses of the system can result in a total loss of these privileges.

6

Making last-minute guesses

It can't always be helped: changes happen when you're shipping internationally. Rerouted or revised shipments and last-minute changes sometimes lead to quick, back-of-envelope calculations that can turn costly if estimates are incorrect. Almost always, it's the shipper that ends up eating the cost.

When a change is made to an international order, even if deadlines are tight, don't count on a quick guess based on other transactions or your recollection of the law – without due diligence, you risk embarrassing customer service mishaps and rejected shipments.

7

Not researching regulated products

In many countries, specific products are flagged as regulated and subject to additional import tax. These costs are not always trivial: for instance, when shipping a car to Singapore, duties, special fees and import tax can cost tens of thousands of dollars – sometimes as much as or more than the car itself.

Regulated products vary from country to country, and are not always obvious. Sometimes, products can be regulated to protect domestic trade, which is why wood bedroom furniture imported to the U.S. from China is subject to a duty rate of over 92%, but similar furniture from other countries is considered duty-free. In other situations, products may be illegal to import: Singapore has banned chewing gum from inside its borders, and Nigeria bans almost all imports as a matter of trade protectionism.

8

Getting tariff codes wrong

One of the trickiest and most time consuming aspects of calculating accurate landed cost is making sure every product in your catalog is correctly assigned a tariff code for each country you ship to. While the first digits of tariff codes are “harmonized” internationally – that is to say, the same first digits apply to a product regardless of where you're exporting it – the last digits vary by country.

Making incorrect determinations about tariff codes (or trying to use one country's tariff codes when shipping a product to a different country) can lead to customs delays, unanticipated extra costs, and returned shipments. Each new product should be evaluated individually to ensure that the correct code determination is made.

9

Failing to calculate total landed cost

Some companies calculate international customs duties on their shipments – then fail to consider VAT and other taxes that can significantly impact the total cost of shipping. It's important to remember that total landed cost is a combination of several factors, and that duty rates will only take you part of the way to a comprehensive landed cost calculation.

When you calculate total landed cost, make sure you're taking every factor into account: the value of the order, door-to-door shipping costs, shipping insurance costs, customs duty, and any import taxes. This way, you'll have a comprehensive picture of your costs and avoid any expensive surprises.

10

Doing it all yourself

One of the easiest mistakes to fall prey to is trying to get landed cost right without any outside expert assistance. Sometimes, the cost of professional tariff code and landed cost determination can be excessive, especially if you're paying the pros by the hour.

Fortunately, there are low-cost, reliable alternatives. For example, Avalara – a leading provider of trusted outsourced solutions to transactional tax problems – offers professional rate code determination at a low flat rate per product and country. Armed with the right rate codes, Avalara's LandedCost engine ensures that you get the right determination every time.



Get Started.

To learn more about pricing, view online demonstrations, or chat about AvaTax's capabilities, visit:

www.avalara.com

or call



877.780.4848 today.

About Avalara

A privately held company, Avalara was founded by a team of tax and software industry veterans to fulfill a vision of delivering an affordable, scalable sales tax solution. Thus making what was not economically feasible in the past for mid-sized business not only affordable, but more accurate as well – all with the latest and most innovative technology available. From Bainbridge Island, close to Seattle, Avalara's knowledgeable staff works tirelessly to help customers put the hassles of sales tax compliance out of mind. Avalara's mission is to transform the tax process for customers by creating cost-effective state-of-the-art solutions. The company does so through integrated on-demand, Web-based software services that provide transparent transactions, accurate tax compliance, painless administration and effortless reporting.