LEARNING MADE EASY

Avalara® Special Edition

Selling Cross-Border

for dummies®
A Wiley Brand

Avoid rejected cross-border shipments

Estimate international customs duties and taxes

Increase international customer satisfaction

Brought to you by

Avalara

Amy Morgan

Faithe Wempen

About Avalara

Avalara helps businesses of all sizes get tax compliance right. In partnership with leading ERP, accounting, ecommerce, and other financial management system providers, Avalara delivers cloud-based compliance solutions for various transaction taxes, including sales and use, VAT, excise, communications, and other indirect tax types. Headquartered in Seattle, Avalara has offices across the U.S. and around the world in the U.K., Belgium, Brazil, and India. Find more information at avalara.com.

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Introduction

The Internet has made buying and selling products across borders easier than ever before. Customers shopping for everything from toner cartridges to lumber turn to the Internet to find the best prices, quality, and selection, regardless of where the seller is located. This borderless world of e-commerce has opened up amazing new sales possibilities for businesses of all sizes, all over the world.

But whenever goods leave one country and enter another, government agencies have to be dealt with and paperwork has to be filed. It's a complicated maze to navigate, made even worse by the fact that there are *two* governments involved — in the ship-from and ship-to countries — each with its own rules.

With all that government involvement, you can bet that there will be additional costs. Most governments assess taxes and fees upon incoming shipments. The exact amounts depend on a variety of factors, but these extra costs can be substantial — they can even exceed the value of the shipment itself!

Think about that for a minute in terms of a customer's expectations. Your customer thinks he's paying US$500, including shipping for his purchase, but after all the taxes and fees are assessed, his actual to-the-door price could be more like US$1,000. That final price that he pays is known as the *landed cost.*

To prevent your customer from getting an unexpected call from his country's customs folks, letting him know how much money he owes, you should provide that information before checkout. Your customer may decide not to go forward with the purchase, but that's better than an angry customer refusing delivery of a package you paid to ship.

In this book, we explain the challenges and benefits of cross-border selling, show you how to calculate the international landed cost, and explain why it's probably in your best interest to use technology to automate the landed cost calculation rather than trying to determine it manually for each order.

Foolish Assumptions

This book assumes that you understand some basics of web-based selling, such as shopping carts and websites. Maybe your company already has an e-commerce site, and you've been selling within your home country for a while now.

However, this book *doesn't* assume that you know anything about cross-border selling, customs, importing/exporting, or any of that international stuff. We fill you in on everything you need to know in those areas.

Icons Used in This Book

Throughout this book, we use icons to draw your attention to important information. Here's what to expect:

TIP

The Tip icon points out helpful suggestions and useful nuggets of information.

REMEMBER

This book is a reference, which means you don't have to memorize the information in these pages — there won't be a test. But every once in a while, we tell you something that's so important, you really *should* commit it to memory. And when we do, we mark it with the Remember icon.

WARNING

This icon points out the stuff your mother warned you about. Well, probably not. But these helpful alerts do offer practical advice to help you avoid potentially costly and frustrating mistakes.

Beyond the Book

There's only so much we can cover in 48 short pages, so if you find yourself at the end of this book thinking "Gosh, this is an amazing book. Where can I learn more?" just go to `www.avalara.com`.

IN THIS CHAPTER

- » Taking advantage of cross-border sales opportunities
- » Defining landed cost
- » Mapping the average international sale
- » Avoiding common pitfalls of selling internationally

Chapter 1 Selling Cross-Border: Yes, You Can!

Until recently, cross-border shipping has primarily been a big-company game, with smaller businesses left out in the cold. It wasn't that small companies *couldn't* sell internationally. It's just that most of them lacked the means to effectively market to international customers, or the know-how to manage the paperwork, shipping, regulations, and customs duty calculations involved.

Fortunately for businesses of all sizes, the Internet has changed the game. Access to global markets has never been easier. Today, any business with an online presence can enjoy the luxury of e-commerce platforms and marketplaces, sophisticated international payment and translation solutions, and faster and cheaper shipping methods. All that makes it easier than ever before for companies of all sizes to sell globally.

In this chapter, we outline the rewards of selling internationally and point out some of the potential risks and pitfalls that you need to be aware of when expanding into the exciting and potentially profitable global market.

Seizing the Opportunity

Business-to-consumer online sales is a huge opportunity, and it's only going to get bigger in the future — especially for businesses that sell globally.

According to the U.S. Department of Commerce and Internet Retailer, online retail in the United States grew by roughly 10 percent in 2018, to US$513.6 billion. By comparison, brick-and-mortar retail grew by approximately 4 percent, and cross-border e-commerce had a growth rate of close to 20 percent.

Indeed, the growth of cross-border ecommerce is fast outpacing U.S. e-commerce sales, and the bulk of global growth is from the Asia-Pacific region, particularly China. According to an eMarketer report, e-commerce sales alone in China are expected to grow by more than 30 percent in 2019, to US$1.989 trillion, or 35.3 percent of all sales. By the end of 2019, China is expected to have 55.8 percent of all global online sales. (To read the reports yourself, head to `https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf`; `https://www.emarketer.com/newsroom/index.php/2019-china-to-surpass-us-in-total-retail-sales/`).

If your business isn't selling internationally, you're hitting only a fraction of your potential market. That's what they call "leaving money on the table."

Making Sense of the Landed Cost

When you buy or sell online, it might not seem like international borders are relevant. After all, we're all one big happy Internet world, right? You don't need a passport to visit a website in another country, and you're free to shop at any online store you like, regardless of where you live.

The simplicity and ease of online access is deceptive, though. It lulls both businesses and consumers into a false sense that international borders aren't significant anymore, and that the physical shipping of the purchased items should be as simple and easy as the ordering. It's not.

WARNING

International *shipping* is nowhere near the simple, painless process that international *ordering* is. When it comes to the physical transport, there are still international borders. Shipping between countries can involve thorny, difficult-to-calculate taxes, customs duties, and other fees, and "I didn't know" is not an excuse for failing to pay them.

The total cost of getting a physical *something* from the seller's facility in one country to the buyer's door in another is referred to as the *landed cost.* At the very least, the landed cost is made up of the cost of goods, the shipping and insurance, and the customs duties and import taxes (see Figure 1-1).

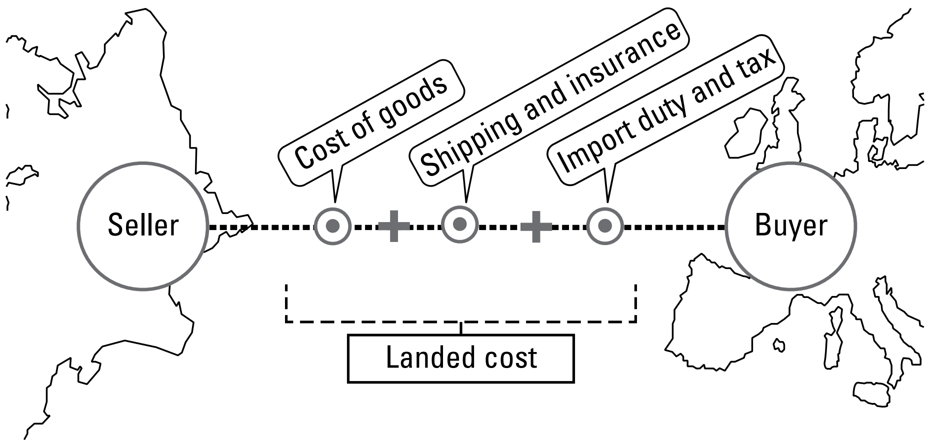

FIGURE 1-1: Landed cost, in a nutshell.

When you ship within your own country, calculating the total cost is a fairly straightforward affair. The buyer pays

- The selling price for the goods
- Shipping and insurance costs (unless the seller offers free shipping)
- Taxes (depending on the state/province/county/city/and so on)

You calculate the shipping cost by running the item's dimensions and weight through a shipping calculator, or you might charge a flat fee or calculate per the rates provided by the preferred shipping company partner (for example, UPS, FedEx, DHL, the postal service, and so on). You calculate the taxes according to the laws of the country, state, and/or province you operate in, and the destination to which the order is being shipped.

When selling to someone in another country, however, it gets considerably more complicated. You must also consider the following variables:

- Import customs duties
- Value-added tax (VAT) and/or goods and services tax (GST) or other local tax equivalent
- Other import fees or taxes specific to the import (destination) country

The really perplexing thing about these extra costs (besides there being a *lot* of them) is that there's little consistency among countries. Some costs apply only in certain countries, and even then, sometimes only if the total shipment is above a certain value (referred to as the *de minimis* threshold) or contains certain kinds of products.

For the cross-border costs that do apply, like customs duties, the duty rate will vary depending on the ship-to country and product. Every physical product must be assigned its appropriate Harmonized System code (*HS code* or *tariff code*), which corresponds to a customs duty rate specific to the destination country. There is a tariff code for every imaginable physical product from live animals and agricultural goods to chemicals to apparel, footwear, and machinery. Each product has a different duty rate set by the destination country.

For example, in one country, an electronic gaming console may be subject to a duty rate of 15 percent, whereas a computer monitor might be charged at 7 percent. In another country, the duty rate might be 12 percent on both.

Furthermore, national legislatures are constantly at work enacting and amending laws, and enacting and repealing trade agreements with other nations, so the applicable duty rates today may not be the same tomorrow.

There's a lot to know about calculating the costs involved in cross-border selling. We get into that topic in detail in Chapter 2. For now, let's just say, "It's complicated."

DAP VERSUS DDP

Providing a landed cost estimate for a cross-border transaction, invoice, or shopping cart doesn't necessarily mean the merchant must collect the import-related customs duties and taxes from the end-consumer and then relay those revenues to the appropriate authorities in the destination countries. As a merchant, if you choose to offer that service to the customer, great! Most customers love that. Doing so is referred to as *Delivered Duty Paid* (DDP). A merchant who does that saves the customer time and effort, and provides a stress-free, hassle-free shopping experience. Some merchants charge the customer an additional premium for this convenience.

The alternative is to ship *Delivered At Place* (DAP), which shifts the burden of the import customs duties, taxes, and fees to the buyer. Merchants who ship DAP should provide landed cost information as an FYI to customers, so that they are prepared to handle those costs on their end and aren't surprised with additional costs when their shipment arrives.

DDP and DAP are two different *international commercial terms* (Incoterms), which are a series of predefined commercial terms published by the International Chamber of Commerce widely used in international commercial transactions. Incoterms are a series of three-letter acronyms intended to communicate the tasks, costs, and risks associated with the transportation and delivery of goods across country borders. A seller can handle things either way, but it's important to be transparent with the end-consumer about that expectation prior to checkout.

Walking through a Typical International Sale

To get a better big-picture understanding of the international sales and shipping process, here's a step-by-step walk-through of a typical cross-border transaction. Suppose that a customer from another country comes to your website, lured by your skillfully placed advertising and stellar reputation. Then what?

1. The customer adds item(s) to his or her shopping cart.
2. The customer checks out.
3. You package the items for shipment and turn the parcel over to your shipping company. You provide the shipping company with the required commercial documents, which include information about the shipment's contents, value, and ship-to/ship-from countries.
4. The shipping company uses the commercial documents to file an export declaration with the customs authorities for the shipment (if required).
5. The item is transported to the destination country.
6. When the item arrives in the destination country, the shipping company determines if an import declaration is required by the destination country. As part of the import declaration process, the customs duties, taxes, and fees are assessed. The buyer must pay these costs at this point before the shipping company will deliver the shipment. The shipment remains in customs until that happens.
7. The item is delivered to the customer.

That's the whole high-level process, in a nutshell. When it works, it goes fairly smoothly, and the declarations and payments sail through without issues. When it doesn't work, usually because of some non-compliance issue, irregularity, or misstatement on the import declaration, the result can be a delayed or even refused shipment, and perhaps an audit and penalties on top of that.

Avoiding the Pitfalls of Selling Internationally

Because of the complexity of calculating it, many sellers haven't attempted to provide a landed cost to international buyers, or even basic tax calculation. While there is growing awareness of the need to expose cross-border taxes to customers, many retailers still don't include customs duties and import fees in their checkout price.

Why would a company's leaders intentionally just stick their heads in the sand like that, ostrich-style? Maybe they think that the costs of crossing the border is not their problem, or that seeing the high cost of customs duties and taxes will scare off the customer and cause him to abandon his cart. Or, maybe they're just too confused about the calculation to be confident in producing a total. They figure that not doing it at all is better than getting it wrong, and they don't realize that there are tools out there that could help them get it right.

Whatever the reason, sellers are shooting themselves in the foot by ignoring the landed cost. In this section, we highlight some of the key problems your company will face if you bury your head in the sand when it comes to calculating the customs duty and import tax.

Lack of transparency

Here's an example of how failing to provide customers with the total delivered cost of your cross-border transaction can result in an angry and unsatisfied customer who will definitely not be a repeat buyer.

James is a U.S. citizen who was recently transferred to an office in India. He and his family missed some familiar comforts that weren't so easy to get there, so they were excited to find an online store that carried many common household products they were accustomed to in the United States, such as certain vitamins, almond butter, and baby formula.

James placed an order worth about US$224. A shipping charge of US$16 was added at checkout, but there was no mention that the goods were shipping from another country, nor was there any mention of customs duties or import taxes prior to checkout. James paid the cost of goods plus the shipping and clicked the Submit Order button. The seller packaged up their items and shipped the goods off to India.

A week later, James received a notice from the shipping company saying that his package had arrived. However, because it was a cross-border shipment, the shipping company required some information to clear Indian customs, including copies of James's passport and Indian visa, proof of address, and more. This back and forth went on for nearly three weeks before the shipping company could complete the customs declaration and arrange for delivery.

After all that hassle, James learned that he would also have to pay US$290 in customs duties and import taxes. He was already frustrated, and now the additional surprise costs? At this point, he simply rejected the shipment altogether. Overall, this was a miserable experience for James, which resulted in the permanent loss of a customer for the seller. The seller also had the warehouse and customer service hassles of dealing with a returned order, the expense of the return shipping, and an angry customer.

REMEMBER

Some sellers are worried that showing the import customs duties in the cart is bad for business. But that's just plain wrong. In our example story here, much of this pain could have been avoided had the seller calculated the customs duties and import taxes on the shopping cart, prior to checkout, so James wouldn't have been caught off guard. Yes, he might not have placed the order if he had known, but he wouldn't have blamed the seller, and he might have remembered the website and shopped there again when he returned to the U.S.

This example shows the types of unforeseen fees that can quickly add up and increase the landed cost of your cross-border transactions. Without a formula that accounts for these costs before the purchase is made, you may end up with material that you now must use or sell at a loss.

WARNING

Until recently, many businesses have flown under the customs enforcement radar. However, governments are catching on, as more and more transactions are being completed online. They've noticed the increase in small e-commerce packages. With new technologies and government modernization efforts, officials can target specific shipments for inspection and monitor their enforcement activity. This may lead to an increase in import audits or cause "stuck-in-customs" delays, further impacting the customer experience.

Bad advice from shipping partners

Many businesses rely on their shipping partners to calculate customs duty and import tax costs and fill out the proper paperwork. But the truth is that shipping companies don't have any incentive to provide good service in this area, because they aren't liable for the compliance. The dirty secret is that the large companies that push more volume with that shipping company have the luxury of getting full-service attention, whereas the smaller businesses are left on their own to deal with poor customer service and lack of regulatory guidance.

To illustrate how easily problems can occur, let's look at another example. A U.S. ceramics company manufactures unique coffee cups and saucers and sells them online, mostly to individuals and a few specialty retail stores within the U.S. The company was approached by a coffeehouse franchise in Great Britain that wanted to outfit all its shops with these cups and saucers. As part of the deal, it was agreed that the ceramics company would coordinate the international shipping. It engaged the same local shipping company that it had already been working with to pick up the shipments and file all the necessary export paperwork.

In filling out the export paperwork, the shipping company asked the ceramics company for the tariff code for each item in the shipment. The ceramics company had no idea what a tariff code was, so the shipping company offered to look up and assign the HS codes for them. The shipping company used the item descriptions on the invoice (which were pretty vague), and determined that the most appropriate tariff code was the one for "Other ceramic articles."

Because of the way they negotiated the deal, the customer receiving the items in Great Britain was responsible for filling out corresponding import paperwork on its end. And to keep things easy, it used the same shipping company to file its import declarations. The shipping company simply copied the same tariff codes from the export paperwork onto the import declaration.

Everything was okay for about six months, but then one of the shipments was checked during a routine customs audit, and the British customs officer noted that the HS codes used on the import declaration form were not accurate. The merchandise was described as "Other ceramic articles," which isn't subject to duty when imported into the EU, but the actual classification should have been "Ceramic tableware," which has a duty rate of 5 percent. Uh oh. Once the error was discovered, customs pulled a report of previous shipments and found this same error repeated.

As the importer of record, the customer was technically responsible for making sure the correct tariff codes were declared on the import documentation, so British customs contacted the customer, and assessed a penalty of £250, on top of a £7,500 bill for back duties for the previous import shipments. As you can imagine, the customer was quite upset, and felt that the ceramics company had let them down.

The ceramics company saved the relationship by reimbursing the customer for part of the unpaid customs duties, and at that point decided it needed to get serious about making sure its international shipments were set up for success. The ceramics company hired a consultant to properly assign tariff codes to all the items in its entire catalog, for every country into which it intended to ship.

WARNING

You can't blindly rely on shipping companies to accurately determine the compliance details necessary to process all the forms and declarations needed. Shipping partners may imply that they can assign tariff codes or calculate duty rates, but they have no regulatory obligation to get these details right. If you read the fine print in your contract with them, you'll see that they have very limited liability if they make a mistake.

When compliance issues are found, it's the importer — the customer — who typically suffers the consequences when international sales transactions go bad.

TIP

Many merchants think that the shipping process ends when the product leaves their country, simply because the customer is responsible for "filing all that customs stuff." But if the customer struggles, or if the customer's import declaration is found to be false, the merchants are the ones subject to fines, penalties, or shipment seizures. And obviously, that makes for a really bad customer experience. Even if it isn't technically your fault as the seller, the customer is going to remember what a hassle it was ordering from you. As a seller, you should be concerned with this, because your customers are what keep you in business!

Fraud

Providing fraudulent data on shipping documents to avoid duty or taxes is illegal. Yes, in the short term, you and your customer might save a little money, but that's no way to build a successful long-term business.

Here's one more story: A man named Bruce lived in Hong Kong, where he bought and sold obscure punk-rock vinyl records on various marketplace sites. He had a good business selling to customers within Hong Kong and the European Union (EU), and he decided to start selling into Canada. He got a few negative feedback ratings from some Canadian customers about being charged high customs duties and taxes, so he used his trusty Google search engine to investigate, and found out that Canada had a very low *de minimis* threshold of only C$20. That means, any sales over C$20 are subject to customs duties and Canadian taxes. He didn't have this issue in the EU because the *de minimis* threshold in the EU was €150, and most of his records sold for less than that.

Bruce's Google searches took him to some online communities where other sellers talked about similar problems with Canada. They told him that if he described his items as "gifts" on the shipping paperwork, his Canadian customers wouldn't have to pay customs duties or import taxes. Because these people were his peers, he believed them when they said it was "just the way to do things." So, Bruce started declaring all his Canadian sales as "gifts," and it seemed to work for a while. But one day, Canadian customs officers intercepted one of his shipments in a routine exam, and when they opened the package, they discovered what was obviously a commercial invoice, which clearly indicated that it was a commercial sale. Customs held the shipment for about a week before they finally assessed the appropriate duty and sent a bill to the customer, who had to pay those charges before the shipment could be delivered. And Bruce? Well, he got an angry email from the customer and also another negative feedback rating. He's lucky that Canadian customs didn't fine him.

WARNING

Another deceptive way for sellers to get around customs costs is to undervalue the shipment or change the description of the goods on the paperwork to reduce or eliminate the duty owed. Undervaluation can take many forms, but the least complicated and most common is simply to include a fake price on the invoice used for customs clearance. Investigators are wise to this, however. They may ask your customer (as the importer) to present a "proof of payment" from a verified third party, such as the credit card provider, before releasing control of the goods. If the price initially declared to customs varies greatly from what was actually paid, customs will often issue a penalty against the importer, and may deny their right to import and seize the goods in question.

IN THIS CHAPTER

» Defining the lingo

» Knowing where to find the information you need

» Getting clear on which information you need

Chapter 2
Calculating the Landed Cost

In Chapter 1, you learned that the landed cost is the total cost of getting a shipment from the seller's facility in one country to the buyer's door in another. Even though it's important to know and communicate the landed cost of cross-border transactions, many sellers take the ostrich approach, to their own detriment.

Sellers are reluctant to deal with calculating the landed cost partly because it's so complicated. There are multiple parts to it, each with its own variables and values, and some of it has to be looked up in intimidatingly large reference books, databases, or websites containing confusing regulatory language (sometimes only in the native languages). In this chapter, we demystify landed cost estimates by leading you step-by-step through the process.

Talking the Talk

We're making the assumption that if you're reading this book, you are *not* an expert on international shipping and taxation. So, let's make sure that we're all working with the same vocabulary:

- **Customs:** *Customs* is the government authority in each country charged with regulating the flow of goods to and from a country and collecting the duties levied by that government on imported and exported goods.

  The customs agency in each country has a different name. As just two examples, in the United States, it's called U.S. Customs and Border Protection (CBP), and in Canada it's the Canada Border Services Agency (CBSA).

- **Customs duty:** In generic terms, a *duty* is a kind of tax levied by a state. Customs duties are applied by a government to protect domestic industry and provide revenue for the national government. Most duties are computed as a percentage of the value, but on some products the value and the weight or some other factor are both considered for duty calculation.

  The most common usage of the term *duty* is as a shorthand of *customs duty* (also called a *tariff*), which is a tax on imports (mostly) or exports (less commonly). Import customs duties are typically paid by the person or organization that is importing the items, as designated on the importation paperwork (also known as the *importer of record*).

- ***De minimis* threshold:** *De minimis* is a Latin expression meaning something that is too minor, trivial, or small to bother with. With respect to customs duty, a *de minimis* threshold is the minimum declared value a shipment must have for it to be subject to customs duty. Each country maintains its own customs duty *de minimis* threshold.

- **Harmonized System (HS):** The *Harmonized System* (HS) is a worldwide classification system that the World Customs Organization (WCO) administers. This system provides a consistent global framework for assigning any imported/exported physical good among participating countries (all major trading countries) with what's commonly referred to as a tariff code.

- **Tariff code:** There is a tariff code for any imaginable product, from live animals and agricultural goods, to chemicals, apparel, and machinery. You may hear these codes referred to as Harmonized System codes (HS codes), *Harmonized Tariff Codes* (HTCs), *Harmonized Tariff Schedule* (HTS) *codes, HTS numbers, Nomenclature Codes,* or simply as *tariff codes or any number of other aliases.*

  Tariff codes are typically 8- to 13-character codes that are assigned to each product in an international shipment based on item attributes. The act of assigning a tariff code is commonly referred to as *tariff code classification* and requires knowing very specific information about the products being sold internationally.

  The first six digits of the tariff code are the same across all countries that observe the Harmonized System. These first six digits are called the *international level.* Individual countries are able to add subsequent characters, depending on the attributes they care about tracking. Each country assigns its own duty rate to each tariff code.

  WARNING

  The tariff code for a product can mean different things depending on the destination country, because each country is free to define the characters beyond the international level any way it chooses.

  The main purpose of a tariff code is to determine the amount of customs duty to charge when the product is imported. In the importing country, each tariff code has a corresponding customs duty rate. You can look up that rate in the country's "tariff schedule" and import regulations.

- **Value for customs duty:** This is the value in local currency upon which customs duty is assessed. In most countries, the value for customs duty is calculated against the value of the goods plus international transportation and insurance costs. But in some countries the customs duty is calculated against the value of the goods at the time of sale exclusive of international transportation costs.

Knowing Where to Find the Information You Need

As you may have gathered by this point, calculating the landed cost requires some thought, and several steps, but it's not impossible to do if you have the correct information to plug into the equation. But that's a huge *if.* Finding the correct information is more than half the battle. The following sections offer some guidance.

Looking up the de minimis thresholds

Countries are constantly passing laws changing the *de minimis* values for imports, but you should be able to find a recent reference online maintained in each country's import regulations.

Table 2-1 provides some example *de minimis* values as of this writing. Keep in mind, though, that countries are constantly passing and amending trade laws, the values provided here are general amounts subject to change, and there may be overriding regulations for specific situations.

TABLE 2-1 ***De Minimis* Threshold Examples**

Country	*De Minimis* in National Currency
United States	US$800
Canada	C$20
India	None. All products subject to tax and duties. There is no minimum value under which tax and duty are exempt.
Australia	AU$1,000
European Union	€150 (for customs duties; different *de minimis* may apply per country for VAT)

Looking up the value for customs duty

Not all countries assess the customs duty on the same value. The customs value varies by country.

In most countries, the value for customs duty is calculated against the value of the goods plus international transportation and insurance costs. For example, this is true for imports into the European Union, Japan, and Mexico.

Duty Amount = Duty % × (Product Price + Cost of Shipping + Cost of Insurance)

But in some countries the customs duty is calculated against the value of the goods at time of sale exclusive of international transportation costs. For example, this is true for imports into the United States, Canada, and Australia.

Duty Amount = Duty % × Product Price

Merchants can learn this information by referring to the import regulations in the countries they ship to.

Looking up tariff codes

In some cases, finding the right tariff code can be fairly straightforward. You locate a good source of HS code information, and then drill down through the hierarchy until you find the classification that fits your specific product based on its attributes. In other cases, finding the right code can be more of an art than a science.

The old-school way to look up a tariff code is in a physical copy of the destination country's Harmonized Tariff Schedule. Online databases make the code lookup process much easier if the destination country offers an online option. You can look up the international codes on the ship-to country's customs website. Alternatively, a quick web search for *HS codes* will yield many results.

Let's look at a tariff code classification using a leather handbag example. In the Harmonized System, the first two digits represents a broad category, called a *chapter.* For example, 42 is for "articles of leather travel goods, handbags and similar containers." The second two digits combined with the first two digits represents the specific item type, and they're called *headings.* For example, 4202 is the heading for leather handbags. The next two characters makes up the *subheading* that represents a descriptor of the attributes or qualities of the product. For example, 4202.21 is for leather handbags with an outer surface made of leather. Figure 2-1 breaks this down for you.

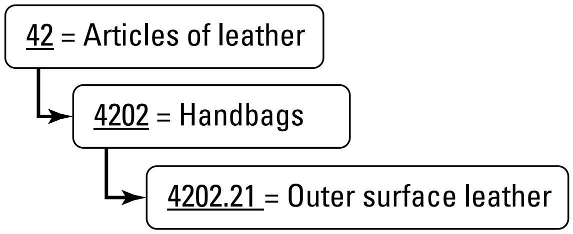

FIGURE 2-1: According to the WCO's international HS classification system, 4202.21 is the six-digit code for the handbag.

If the handbag were shipping from Canada into the U.S., using the `https://hts.usitc.gov` website, which provides import tariff codes and duty rates for the U.S., you would find the following subheadings and their corresponding duty rates, as shown in Figure 2-2:

4202.21.3000: Of reptile leather, 5.3 percent

4202.21.6000: Value not over $20, 10 percent

4202.21.9000: Value over $20, 9 percent

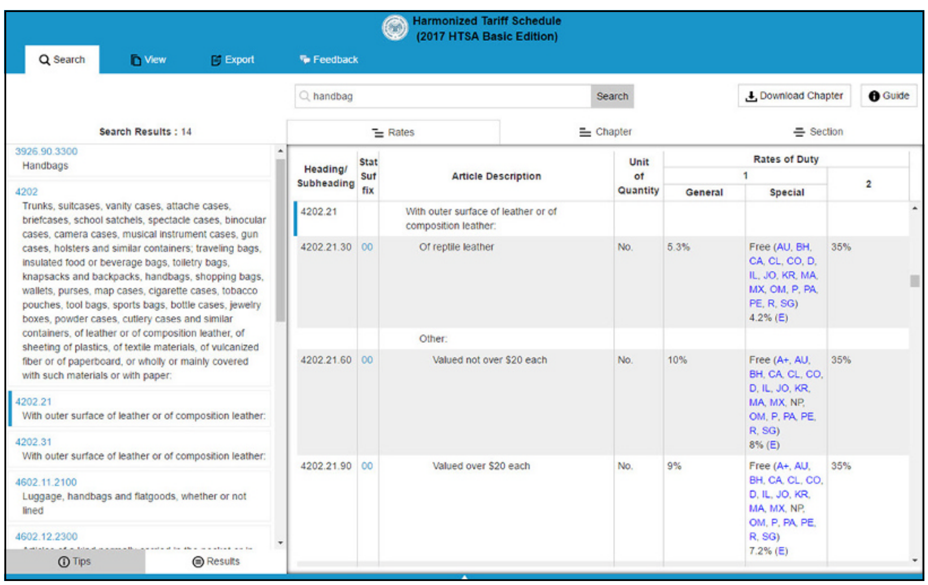

FIGURE 2-2: Look up the tariff schedule for the country into which you're importing.

TIP

Looking up each product's individual HS code on a website will work pretty well if your company sells only a few products, or if all your products fall into the same tariff category (for example, if you only sell cotton T-shirts, or only gourmet chocolates). You can enter the tariff code in your inventory database whenever you add a new product, and never have to look up the code for that specific item again (unless, of course, something about that item changes or if the government changes the code).

However, manual lookup is not practical for companies with large inventories or products that change frequently. Such companies may find it more cost effective to use an automated system for classification. Companies with extremely complicated tariff code classification challenges may want to go a step further and hire a professional consultant to review their item catalogs and assign the applicable HS codes, or employ automation software with this capability built in.

REMEMBER

These codes are, by definition, harmonized, so any site should produce the same information for those first six digits.

TIP

Avalara's Item Classification product will assign a HS code for each country and product combination, saving you time trying to find and navigate the tariff schedule and import regulations for each country you sell into. Armed with the HS code, you can determine the corresponding customs duty rate. You can do this manually, or use a tool such as AvaTax Cross-border to apply the correct rate and calculate the customs duty and import taxes automatically (see Chapter 3).

Looking up the customs duty rate

Once you have the tariff code for each item in a shipment, you can determine the corresponding customs duty rate for the product(s) in the shipment.

Here are a few sites for some of the countries that do the most international trade; you can find others via web searches.

- **Brazil:** `http://sarem.mercosur.int/nomenclatura/es`
- **Canada:** `www.cbsa-asfc.gc.ca/trade-commerce/tariff-tarif/2017/menu-eng.html`

- **China:** www.customs.gov.cn/publish/portal0/tab399/info782988.htm
- **European Union:** http://ec.europa.eu/taxation_customs/dds2/taric/taric_consultation.jsp?Lang=en
- **United Kingdom:** www.gov.uk/trade-tariff
- **United States:** https://hts.usitc.gov/current

These sites can and do change, so check them frequently to ensure that you're using the most up-to-date information.

Referring to Figure 2-2, it's important to note that these duty amounts are "general," which means they apply if there are not any special situations. The U.S. has trade agreements with certain nations that may reduce or render the duty amount to zero for this type of product. So, if the shipment is coming from Canada, which participates with the U.S. in the North American Free Trade Agreement (NAFTA), and the item meets the conditions necessary to qualify for NAFTA, the item could be duty-free. Sweet! In contrast, if you were importing into the U.S. from the UK, which doesn't currently have a special trade agreement, the general rate would apply.

Now let's say that you're exporting *from* the U.S., and importing *into* the UK. You could turn to the UK government's website to look up the code and determine the duty rate. For example, when we looked up leather handbags at www.gov.uk/trade-tariff, we found the information shown in Figure 2-3. The tariff code is 4202.21.0010 when importing into the UK, and the customs duty is 3 percent when coming from outside the EU.

Looking up additional taxes and fees

Each country has its own unique combination of additional taxes and fees to be paid on imports. Some of these expenses might include value-added tax (VAT) or goods and services tax (GST), customs clearance fees, additional customs duties, and special taxes that apply only to certain kinds of products in certain countries, such as excise and/or consumption taxes, and taxes on liquor or tobacco, cosmetics, or other luxury goods.

These taxes are the responsibility of the buyer, of course, but if you want to be able to provide an accurate landed cost, they have to become your business, too.

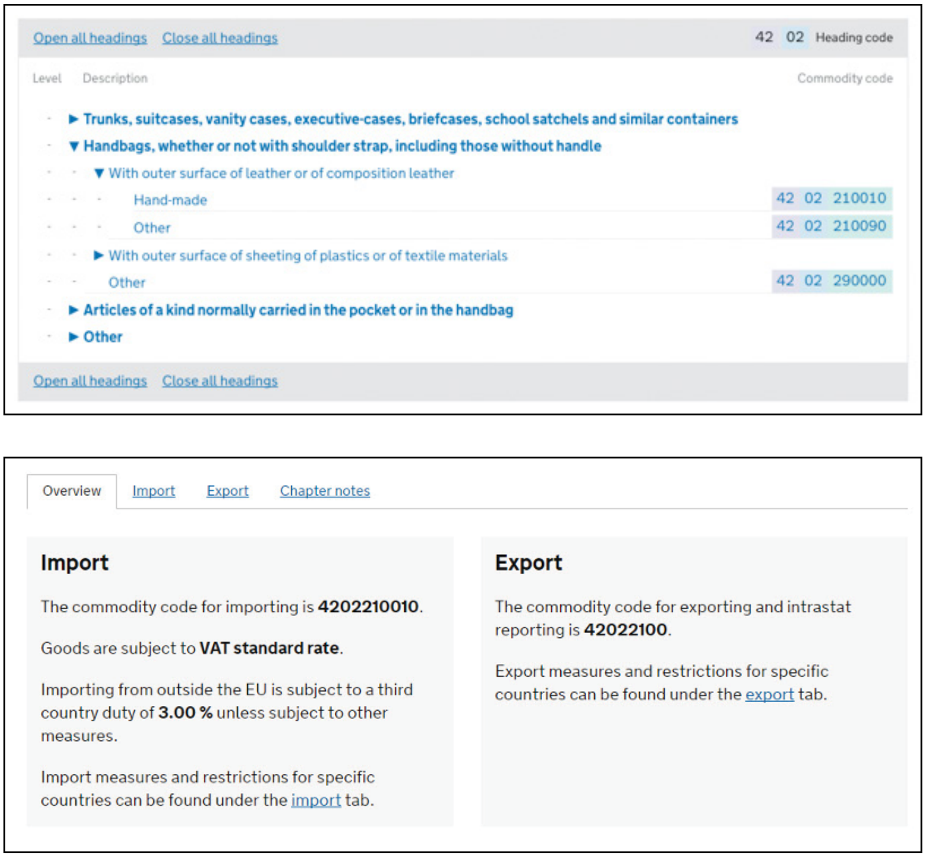

FIGURE 2-3: Looking up leather handbag import on the UK government's trade-tariff website tells you the complete tariff code and also the duty rate.

TIP

To find out the taxes assessed in the importing country, consult that country's import regulations. In most cases, you should be able to get this information from the same websites where you look up the tariff code and duty rate. For example, by visiting `www.customs.go.up/english/summary/tariff.htm`, you can learn about the components of Japan's import costs.

Identifying the Information You Need

To calculate the landed cost for a particular shipment, you must have the following information, some of which you have to look up using government websites, reference books, or databases:

- **What is the destination (ship-to) country?**
- **What will it cost to ship it using your preferred shipping service?** Remember, the total landed cost includes the value

of the goods, the shipping and insurance costs, as well as the applicable duties and taxes.

- **How does the destination country assess the *value for customs duty?***
- **What is the *de minimis* threshold for the destination country?**
- **What method does the destination country use to assess value for duty?**
- **What is the tariff code for each item in the shipment?** You'll need the destination country-specific tariff code for each item in the shipment.
- **What is the customs duty rate for each of the items' tariff codes?** You'll need to look up the customs duty rate that corresponds to each tariff code.
- **Are there any special trade programs that affect the customs duty rate, such as a free trade agreement between the origin and destination countries?**
- **What other local taxes and import fees apply to the shipment besides customs duties?**

In the following sections, we fill you in on how to calculate some of these items.

Shipping and insurance costs

Let's start with the simple stuff. Shipping and insurance costs are usually the easiest part of the landed cost equation to calculate, because many shopping cart apps provide these calculations as part of the package, or allow you to add this functionality through third-party providers to tie in your negotiated shipping rates.

Customs duties

You calculate the customs duties on an import by performing the following steps.

- **Find out the customs duty *de minimis* for the destination country, and compare the shipment's value to it.**

  Generally, if the shipment exceeds the threshold, you can proceed to Step 2. Otherwise, you're done.

» **Find out how customs duty is assessed in the destination country.**

» **Find the tariff code for each item in the shipment.**

We explain how to do this in the "Looking up tariff codes" section earlier in this chapter. Make a note of the customs duty rate that applies to each item.

» **Do all the math to assess the customs duties for each item in the shipment.**

Let's walk through an example calculation. Suppose that you're shipping a leather handbag worth US$100 from the U.S. to a customer in Canada.

The first step is to find the customs duty *de minimis* threshold for Canada by looking it up in Canadian customs regulations. Table 2-1 shows that it's currently C$20. A quick currency conversion reveals that US$100 is about C$131, so it definitely exceeds the threshold.

Second, the value for duty in Canada is on the value of the goods at time of sale exclusive of international transportation costs. (See "Looking up the value for customs duty" earlier in this chapter for this calculation.)

The third step is to determine the tariff code for the handbag. You do this by looking up the code in the destination country's tariff schedule. (See "Looking up tariff codes" earlier in this chapter.)

After doing so, you find the duty rate that corresponds with that tariff code. In this case, the duty amount is 10 percent.

The fourth and final step is to calculate the customs duties due. Because the duty rate is 10 percent of the total value of the product (exclusive of the international transportation costs), it comes out to C$13.10 or US$10.

Armed with that amount, you would then inform your customer (or potential customer) — preferably before the customer finalizes the sale, in the interest of good customer service. So, even before the customer has committed to the sale, you've done quite a bit of calculation work on her behalf. (Of course, this example is doing it all manually; in practice, if you do a lot of international sales, you'll want to automate the process, as we describe in Chapter 3.)

Other taxes and fees

It's a common misconception that customs duties are the only additional cross-border costs involved in international transactions. The truth is, each country has its own unique menu of import taxes and fees that may apply, depending on the circumstances of the transaction.

We like to call the details of shipping to a specific country a "tax sandwich." You know how at a deli, different people ask for different ingredients on their sandwiches, along with the "always there" items like bread and filling? Cross-border costs are like that, with each country being a customer asking for different ingredients. For example, Figure 2-4 shows how India charges consumption tax, liquor/fuel tax (if applicable), and customs clearance fees. Figure 2-5 lists some of the additional items for several other countries.

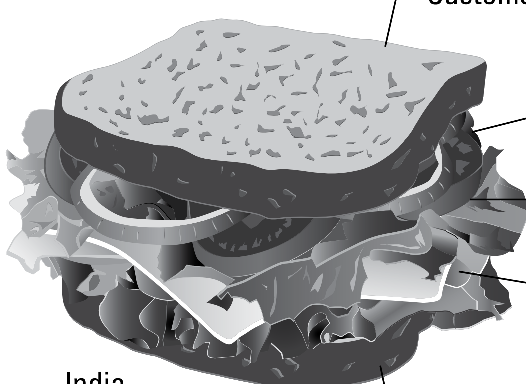

FIGURE 2-4: India charges a customs duty, an additional customs duty, a CESS fee, a countervailing duty (when applicable), and a local tax.

WARNING

The additional taxes and fees change frequently based on a country's political and economic situation, so if you haven't shipped for a while to a particular country, it's worth verifying that the information you have is still accurate.

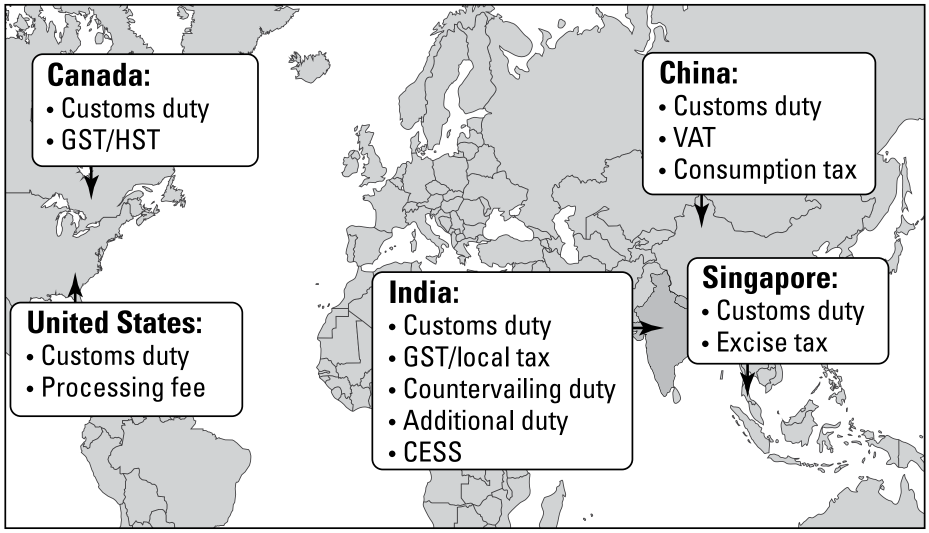

FIGURE 2-5: Each country has its own unique "tax sandwich" ingredients. Here are a few more examples.

IN THIS CHAPTER

» Going it alone

» Relying on your shipping partners

» Hiring a consultant

» Using software to automate the process

Chapter 3
Weighing Your Options

If you read about the cross-border cost calculation quagmire in Chapter 2, you may be feeling a bit uneasy. The thought of running through all those lookups and calculations manually every time you have an international transaction is pretty unappealing. Maybe you're even starting to sympathize with the merchants we talk about in Chapter 1 who don't include taxes in their checkout prices — even those who may have no intention of even trying.

But don't give up just yet! Providing the landed cost information to buyers is still a *great* idea, for all the reasons we cover in Chapter 1, and you don't have to go it alone. In this chapter, we fill you in on your options, including some ways to make the process less painful and time-consuming.

Toughing It Out Yourself

If you ship internationally only occasionally, and you aren't afraid to dive pencil-first into the calculations in Chapter 2, you may be able to manage the landed cost calculations all on your own. You can create your own reference material, including spreadsheets for each inventory item that contain the tariff codes, attributes, duty rates, and tax and fee information for the countries you ship to the most.

TIP

Use the resources we provide in Chapter 2 as a starting point, and find additional resources by doing your own web searches. Periodically (at least once a year), you should re-research all the tariff codes and duty rates and amounts in your spreadsheets to make sure that they're still up to date with each country's rules.

There are several drawbacks to making your own spreadsheets and databases, though. For example, any data file that's comprehensive enough to be useful is likely to be huge and unwieldy to navigate. In addition, multiple departments will probably need access to the data. If each department has its own local copy, you'll have to make sure that all the copies are kept synchronized and up to date.

Outsourcing to Shipping Partners

Shipping companies can usually help with the information required for exports and imports, up to and including looking up and assigning tariff codes, calculating the customs duty, determining taxes and fees, and other import costs on behalf of the buyer.

In Chapter 1, we tell you a story about a ceramics company that did this initially and how it ended badly. So, why would we be suggesting it now? It's not that we're *suggesting* it; we're just pointing out that it is an option.

In the story of the coffee cup shipments, the shipping supply chain didn't break down because the seller used a third-party service to handle its export and import documentation. Many companies use shipping companies for this service effectively, without experiencing any problems. Rather, in the ceramics company example, there was a perfect storm of errors caused by lack of adequate product descriptions provided to the shipping company, lack of expertise in checking the shipping company's work, faulty assumptions made when filling out import paperwork, and nobody taking responsibility for any of it. Correct for those factors and the story would have likely ended very differently.

When you provide limited information about your shipments, the supply chain tends to make assumptions to ensure the products clear customs. These may not be in your best interest and can cut into your margins. For example, you could end up paying a higher duty because your products were classified at the highest rate versus the correct rate for that type of product.

TIP

Bottom line: If you choose to use import/export services provided by a shipping company, take ownership. Remember that if there's a problem, the shipper has very little legal responsibility; it's all on you and/or the buyer. You may even want to hire a consultant to spend a few hours looking at what the shipper is doing now and then, for peace of mind.

Using Consultants

As mind-boggling as most of us find landed cost calculations to be, there are actually people out there who live and breathe this stuff. They can quote hundreds of tariff codes from memory, and can tell you the *de minimis* threshold for just about any country off the top of their heads. They constantly monitor international news sites for trade-related information, and they get almost giddy when there's a big court case that might change the way a tariff-related law is interpreted.

TIP

One way to make landed cost calculation a lot easier is to delegate all or part of the work to one of these global trade enthusiasts. You can hire a private consulting company to come in and assess what's going on with your international sales and offer recommendations. Consultants can help you map your inventory to tariff codes, for example, and set up a database containing the information your staff might need to look up.

If your international business volume warrants it, you could even add a full-time specialist to your staff. An on-site international shipping specialist can put his or her time toward anything that needs to be done on an ongoing basis. However, a full-time staffer is a big investment — at least US$50,000 to US$100,000 a year when you include salary, benefits, office space, training, and so on. If you're *that* serious about international shipping, you should really consider automated tools as an alternative or complement to consultants (see the next section).

Automating with Technology

Let's face it: When it comes to looking up information and calculating totals, automated solutions and apps are champions. Automated solutions can look up a tariff code in a database, calculate the duty for the destination country, apply any applicable extra taxes, and produce a total, all in the blink of an eye. A human, even the most dedicated tariff enthusiast, can't begin to compete with that.

If you're going to integrate landed cost calculations into your website's shopping cart, automation is really your only viable option. Using technology is also much less expensive than hiring a full-time professional. So, let's look at some ways that automation can help.

TIP

Avalara offers a comprehensive cross-border solution built to support e-commerce and supply chain companies with their international sales and logistics:

- **Tariff code help:** Don't have the manpower or expertise to classify all those cross-border shipments? Avalara Item Classification streamlines the process of assigning tariff codes to products, saving time and increasing accuracy.
- **Real-time customs duty and import tax calculation:** AvaTax Cross-border enables you to determine the customs duty and import tax at the point of sale to avoid surprise fees. This results in fewer rejected shipments and more satisfied international customers.

Assigning tariff codes

If your company offers a hundred products, assigning tariff codes to them could be perhaps a multiday project, where you sit down with an online reference and your company's inventory database and fill in the blanks. Not that difficult, right?

But what if your company sells 10,000 products, or 100,000? What if you sell these products to multiple countries? Suddenly the idea of manually going through and figuring out the HS code for each item is pretty overwhelming (*not* a good use of employee time, and prone to human error).

Technology can automate this process. Avalara Item Classification assigns the country-specific HS code for each product in your catalog, saving you time and increasing accuracy.

Calculating costs

Assigning tariff codes to your products is just the beginning. Whenever an international buyer purchases one of those products, you have to look up the tariff code that is specific to the destination country, and determine the customs duties and other taxes that apply to the sale.

Technology that automates this kind of activity has to be complex and intelligent for three main reasons:

- Accurately determining duty rates can be complicated because there are so many details and exceptions.
- Not all countries make their duty rates and taxes easy to find online, and even when they do, it's not usually in a format that can be easily integrated into software.
- Customs rates, taxes, and other fees in any country can change any time.

If your international business is higher volume than just a few shipments a month, using a manual system where a person has to look up values on a website each time is not your best bet. For one thing, the customer has to wait for the calculation while the human prepares the data: In today's instant-gratification online shopping environment, even a minute or two of delay is enough to lose a customer's business. For another, manual lookup is simply not the best use of your staff's time.

TIP

With Avalara's AvaTax Cross-border product, customs duty and import taxes can be determined in real time.

Showing the landed cost in the shopping cart

All the options presented in the previous sections can help you get a better handle on calculating landed costs, and can help you avoid tariff code misclassifications and the resulting costly problems. What none of them *will* do, however, is what you probably *want* to do in the first place: show the landed cost, in the shopping cart, before the customer clicks that button to finalize the purchase. For that, you're going to need technology that integrates with your shopping cart software.

The technology checks the ship-from/ship-to addresses on the order, and if it's cross-border, it automatically kicks in. It can look up the product's tariff code, figure out the duty and other applicable taxes and fees, and add them into the shopping cart total, so the customer can see at a glance the total amount that he or she will be paying. Alternatively, the technology can simply offer a courtesy message estimate of the customs duty and import tax to avoid any nasty surprises when the shipment arrives. Compare the order summaries in Figures 3-1 and 3-2, for example. In Figure 3-1, no landed cost data is provided; in Figure 3-2, the customer sees the true total cost before checkout.

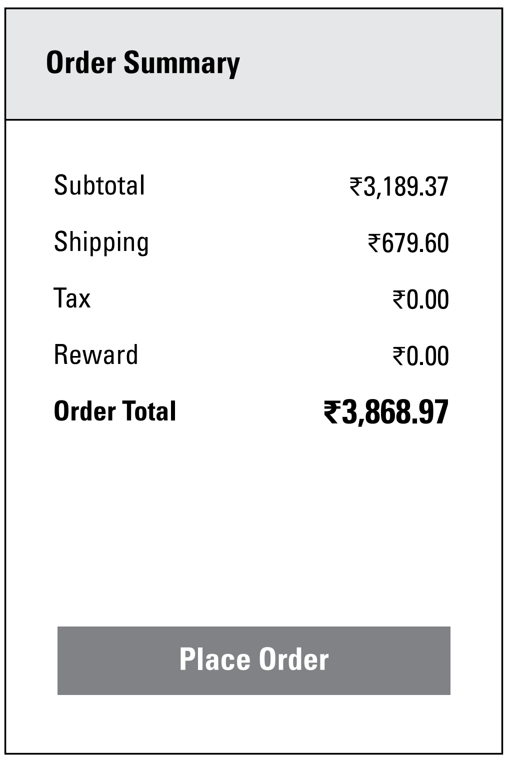

FIGURE 3-1: Without landed cost calculation, the shopping cart doesn't reflect the true price the customer will pay.

With calculation technology in place, you have the flexibility of providing the totals as information-only, as in Figure 3-2 (known as delivered at place, or DAP), or collecting the extra money on behalf of the customer (known as delivered duty paid, or DDP), as in Figure 3-3. Pretty slick, eh?

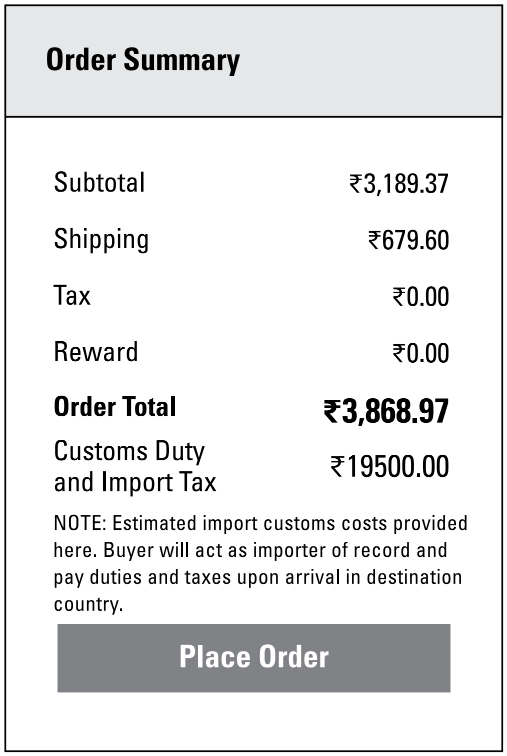

FIGURE 3-2: In this DAP example, the customer sees the Customs Duty and Import Tax but isn't actually charged for it by the seller.

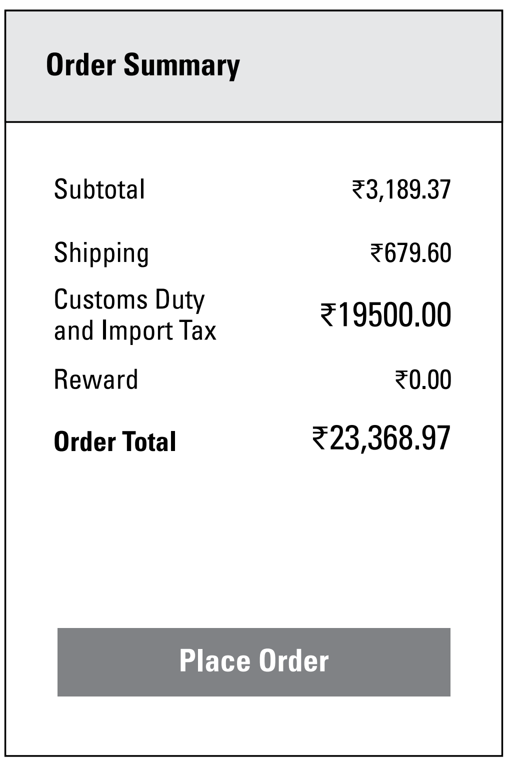

FIGURE 3-3: In this DDP example, the customer sees *and* is charged for the Customs Duty and Import Tax.

TIP

A shopping cart app is probably what you need. It simplifies and automates the entire process, removing the worry and complexity from the international selling process.

So, where can you find such technology? Look no further than the people who know transactional tax inside and out: Avalara. The AvaTax Cross-border product integrates with your shopping cart to provide real-time customs duty and import tax information right there in the customer's cart, before they check out. This results in more satisfied international customers and fewer rejected shipments.

Refer to Figures 3-1, 3-2, and 3-3 to see the difference in the summary information provided with and without the landed cost.

AvaTax Cross-border is deceptive in its simplicity. The actual process of calculating the customs duty and import tax is tricky and complicated, but the technology makes it seem simple. That's because a good shopping cart calculator has a solid back-end consisting of multiple databases and decision engines that are continuously being updated to reflect the latest in international tariff legislation. There's a lot of power behind that "simple" calculation, as well as a lot of research and data gathering that went into the databases it draws from.

Avalara AvaTax Cross-border is an application programming interface (API) that takes the following inputs from the shopping cart:

- Ship-from country
- Ship-to (destination) country
- Tariff code for each item in the cart
- Item quantities and values
- Any exemptions available

Based on that data, Avalara's technology delivers either a DAP or DDP result, and shows that information right there in the shopping cart. So, your international customers won't be surprised by unexpected customs duty and import taxes.

Chapter 4
Avoiding Ten Common Mistakes

In this chapter, we warn you about some of the most common pitfalls of shipping internationally. Many of these are "rookie mistakes" made by businesses that are new to cross-border selling, but even longtime multinational businesses can make costly tariff and duty mistakes. Check out this top ten list of potential problems to make sure that you're not putting your business at risk:

- **Assuming consistency between countries:** Each country you ship to has its own taxes, duty 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 percent in the U.S. and 11 percent 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 percent, but in the U.S., the product is duty-free. Confusing, isn't it?

- **Passing the buck down the supply chain:** Faced with the difficulties of calculating landed cost, many companies decide to punt the issue to transportation and fulfillment providers. Some shippers 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 and medium businesses are often left in the lurch with little guidance. If your providers make a mistake, prepare yourself for poor customer service and to see the monetary burden fall on *your* shoulders.

- **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, and 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.

- **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, 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 to sneak in under duty-free or low-value customs policies.

  Governments have noticed this tactic, and they're 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.

WARNING

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 loss of these privileges.

- **Playing fast and loose with documentation:** 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's requested, can lead to significant delays in processing shipments.

TIP

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 information and documentation is stored with future access in mind, and consider digital scanning to make cross-referencing easier.

- **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.

REMEMBER

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.

- **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 taxes 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 aren't 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 percent, but similar furniture from other countries is 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.

- **Getting tariff codes wrong:** One of the trickiest and most time-consuming aspects of calculating accurate customs duty and import tax is making sure that every product in your catalog is correctly assigned a tariff code, or HS code, for each country you ship to. The first six digits of tariff codes are "harmonized" internationally (see Chapter 2), but the subsequent digits vary by country.

  REMEMBER

  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 HS code determination is made.

- **Failing to calculate landed cost:** Some companies calculate international customs duties on their shipments, but fail to consider VAT and other taxes that can significantly impact the total cost of shipping.

  REMEMBER

  Total landed cost is a combination of several factors, and duty rates will only take you part of the way to a comprehensive landed cost calculation.

  TIP

  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 duties, and any import taxes. This way, you'll have a comprehensive picture of your costs and avoid any expensive surprises.

- **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.

  REMEMBER

  Fortunately, there are low-cost, reliable alternatives. Avalara — a leading provider of trusted outsourced solutions to transactional tax problems — offers an automated solution to classify your products for any country you sell to, and calculates the customs duty and import tax.

Notes

Notes


CUSTOMS DUTY
AND IMPORT
TAXES AHEAD

Don't leave your customers in the dark!

Selling internationally is more than just "shipping and handling." Customs duty and import taxes can dramatically increase the total door-to-door cost (a.k.a. the landed cost). But landed cost can be hard to figure because of the many factors involved: Tariff codes, customs rates, trade agreements... how do you even begin? *Selling Cross-Border For Dummies* explains in simple language how to figure the costs for an international shipment, and how you can automate the calculation process.

Inside...

- Why ignoring customs duty and import taxes makes unhappy customers
- Find tariff codes and customs duty rates
- Determine *de minimis* thresholds
- Figure additional import taxes and fees
- Risks and benefits of relying on outside help
- Automate customs duty and import tax calculation

Avalara

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