GOING GLOBAL

with **Tom Stanton**

International Small Package Shipments: Duty and Tax Problems

Last week, one of my friends in business consulting sent me a question. His client had told him that one of the US international small package carriers was preferable to the others because they would always collect the duties from the customer before delivery. The client had received charges from the other two small package carriers for duties and taxes when the consignee was unwilling to pay them as they delivered the package, and the client was unable to retrieve his package from the consignee who had received the package without paying duties.

The first thing I did was call the other carriers and ask if delivery to the customer without collection of duties when the shipment was marked "duties to account of consignee" was an acceptable service standard. They both confirmed that they would hold the package until the client would pay duties or they would contact the shipper for instructions. Perhaps my friend's client's experience was not the norm; however, making shipments to international locations without an agreement or commitment for duty and tax payment of a particular amount by the consignee leaves a potential for misunderstanding and lost future sales. Here is what I suggest:

1. Put language in your sales agreement or service contract that clarifies that the client is responsible for duties and taxes. Then, include the expected duty and tax amounts as part of the order confirmation. It takes some research or investment with a service provider up front to do this, but from then on, you will have the information for computation of duties and taxes for any consignee in that country for that commodity. Even if the carrier were to deliver the package to the consignee without payment of duties and taxes, the probability of their not paying is dramatically reduced if they sign that they will pay and know what the amount that will be.

2. Look for the harmonized classification information on the web or from a broker. To help identify this classification, the US Census Bureau Foreign Trade Division (FTD) has a classification assistance program available at: www.census.gov/foreign-trade/schedules/b/#search. For more technical classification issues, see http://rulings.cbp.gov/.

3. Examine the destination tariff. The destination country tariff must be examined to identify the exact classification for the destination country and the relative duties and taxes. The first six classifications are the same, but destination countries may add four to six more numbers as appropriate to their local commerce reporting needs.

Let's look at how duty and tax calculation might work once you have established the classification for the importing country. In most cases, to compute the duties and taxes due, multiply the duty rate times the shipment value plus freight and insurance (CIF transaction value) and then multiply the CIF value of the goods plus duties times the tax rate to compute the taxes.

The Bottom Line

Here is a basic duty and tax calculation example:

Value of goods $15,000 FOB Value

FOB value	**$15,000.00**
International freight	**$1,000.00**
International Insurance	**$48.00**
CIF value	**$16,048.00**
Duty 5%	**$802.40**
Subtotal	**$16,850.40**
Taxes 25%	**$4212.60**
Total duties and taxes	**$5,015.00**

In the end, the computation of the duties and taxes for your international customers will ensure they accept the shipment and increase the likelihood of repeat business! ■

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