



DUTY MITIGATION STRATEGIES

In FTZ's,
Bonded
Warehouses
and Tariff/FTA's



DUTY MITIGATION STRATEGIES

- Free Trade Agreements
- Tariffs
- Bonded Warehouse
- Foreign Trade Zones



FREE TRADE AGREEMENTS

The U.S. has 14 free trade agreements covering 20 countries

Can result in significant savings

allowing for competitive pricing and increased profitability

Market access

allowing businesses to expand into new territories and reach larger customer base.
reduction on non-tariff barriers, like quotas

Considerations

- Do the goods meet the requirements of the FTA for that region?
- Do a cost-benefit analysis – evaluate the costs involved?
 - Transportation, Customs Fees & compliance related expenses
 - Landed cost



FREE TRADE AGREEMENTS

How they work

When goods are validated and quality for the FTA, goods are entered duty free or at a reduced duty rate depending on the agreement.

CBP's [CSMS # 63096696](#) message was updated Nov. 2024 advising importers must be the actual IOR on the origin declaration, origin statement and/or certificate of origin documents and that the consignee if other than the IOR may not be listed on the document.

- The party completing the certification must be a “responsible official” having knowledge of the relevant facts per the regulations.
- If an importer fails to submit when requested the origin declaration, origin statement and/or certificate of origin documents the claim for preferential tariff treatment may be denied.

FREE TRADE AGREEMENTS

Risks

- Supplier creates an FTA document without validating that the goods qualify
- Documentation not maintained supporting FTA
- Changes take place in the supply chain of the producer and not taken into consideration in previously completed FTA certificates
- Your Customs broker continuing to apply the FTA after the expiration of the certificate
- If there are trade remedies on items, the trade remedy will still be applicable

CBP has a Side-by-side comparison of the FTA's at: [Side-by-Side Comparison of US FTA](#)

TARIFF'S

Tariff Engineering

Designing or restructuring merchandise to obtain a compliant, favorable tariff classification.

- Ensure proper classification
- Know your product design, composition & manufacturing process in addition to understanding the harmonized tariff schedule and how they are interpreted.
- Articles at time of importation must be a commercial reality.
- Commercial Reality must be a genuine (legitimate) step in the manufacturing process and have a commercial use or identity as imported
- Sold in condition as imported to the ultimate purchaser.

Started in 1882 when sugar was taxed based on the Dutch standard color, which generally corresponded to quality. The importer had their sugar colored with Molasses which changed the color and therefore qualified for a lower tax.



EXAMPLES OF TARIFF ENGINEERING

Positive

Converse (now Nike)

- Put felt on the bottom of sneaker which allowed Converse to classify their product as slippers. Sneaker duty rates up to 37.5%, slippers between 3 to 12.5%

Columbia Sportswear

- Moved a pocket on blouses from above the waist to below the waist resulted in a change of duty from 26.9% to 16%
- Took a non-waterproofed jacket and made it water-resistant lowering the duty rate from 27.7% to 7.1%



EXAMPLES OF TARIFF ENGINEERING

Negative

Heartland By-Products

- Had molasses added to sugar in the form of syrup. Once imported the molasses was removed prior to sale.

Florida Shoe

- Had removable felt attached to the sole of the shoe with light adhesive backing rather than glued. Easily removeable. Advertised and sold similar if not identical shoes as clogs with rubber soles. No mention of felt.

Ford

- Imported cargo vans with sham rear seats and other temporary features in order to classify the vans as passenger vehicles to avoid the Chicken Tax of 25%. In March 2024, Ford agreed to pay a penalty of \$365M

CUSTOMS BONDED WAREHOUSE

What is a Customs Bonded Warehouse?

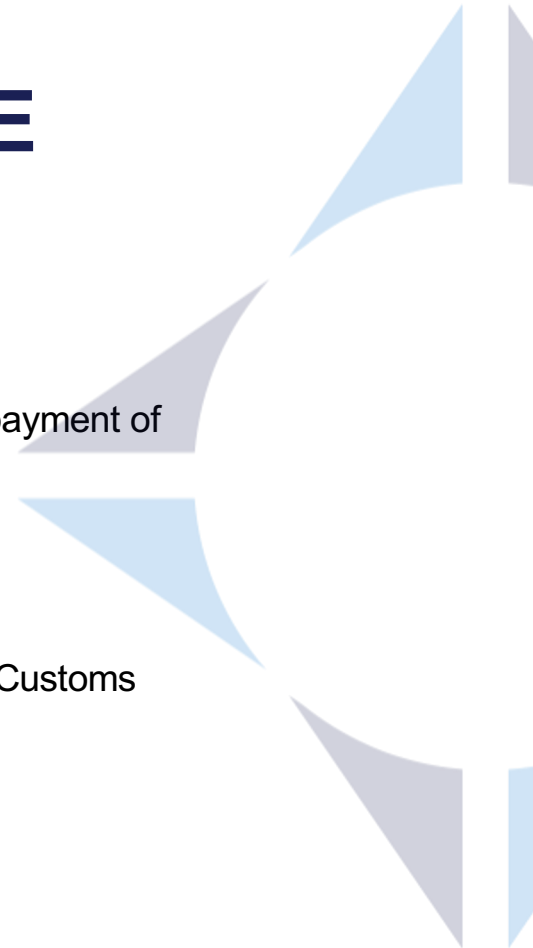
- A building or other secured area which is inside the customs territory without payment of duty for up to 5 years from the date of importation

Companies use a Bonded Warehouse for

- Storage/distribution
- Manipulation
- Manufacturing Operations (in a specific type of warehouse once approved by Customs and Border Protection).

Benefits of a bonded warehouse

- Duty deferment
- Duty avoidance
- Internal Revenue Tax Deferral/avoidance – Wine, Beer, Spirits or Tobacco



WHAT'S A FOREIGN TRADE ZONE (FTZ)?

A defined secure area in the U.S. that is treated as if it's outside the commerce of the U.S. upon activation, and supervised by Customs & Border Protection (CBP)

Companies use FTZ for

- Storage/distribution
- Production/manufacturing (after approval by FTZ board)
- Consolidating freight for export
- Attempt to avoid Quota's



FTZ DUTY MITIGATION



Duty Deferral – Cash Flow

Duty Avoidance

Merchandise Processing Fee (MPF)
Savings

Duty Inversion (production)

Harbor Maintenance Fee Deferral

**Internal Revenue Tax Deferral – Wine,
Beer, Spirits, and Tobacco**

FTZ ADDITIONAL SAVINGS

- Weekly entry
- Zone to Zone transfers
- Scrap and waste
- Review and update of ERP processes to harmonize with FTZ Software
 - Work order process
 - Inventory & cycle counting
 - ERP access and permissions
- Purchasing process reviews – “Best Sourcing” for FTZ production



DUTY DEFERRAL

Applies to both bonded warehouse and FTZ

What is it?

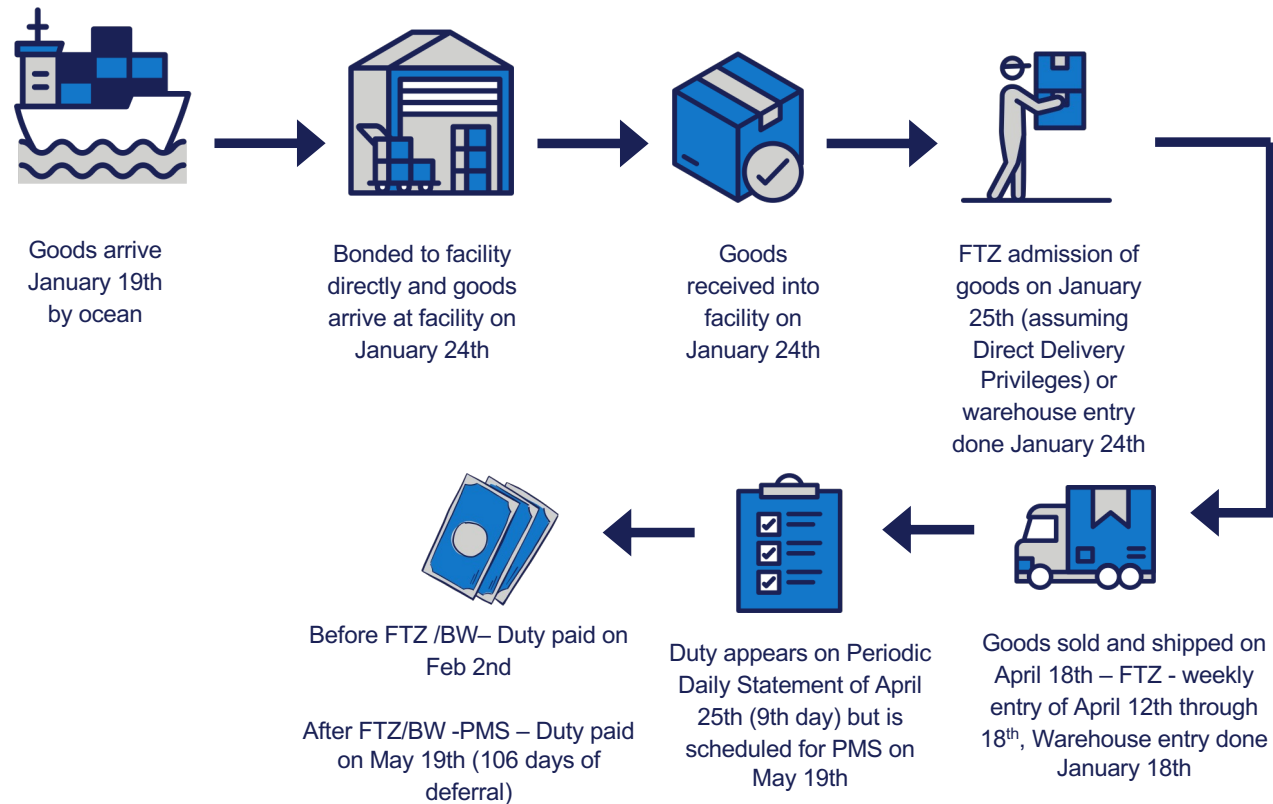
- Not paying duty or IR taxes until goods are withdrawn from the FTZ for consumption
- Coupling duty deferral with Periodic Monthly Statement (PMS) for greater deferral

How does it work?

- When goods are withdrawn for consumption then “duty paid”
- Goods withdrawn in one month are duty paid on the 15th business day of the following month (PMS)

DUTY DEFERRAL EXAMPLE

Based on four inventory turns per year



DUTY AVOIDANCE

Applies to both bonded warehouse and FTZ

What is it?

- Goods brought into the FTZ/Bonded warehouse and directly exported or destroyed under Customs supervision
- Goods never withdrawn for consumption in the U.S., so no duty is paid – includes Section 232/301, AD/CVD, and IR taxes.
- Goods moved on a zone-to-zone transfer to another zone (FTZ only)

How does it work?

- Imported goods are moved to the FTZ/Bonded warehouse in-bond
- When goods (same condition or production goods) are ready to export they are moved in-bond to the port of export on a CF7512 in-bond or PTT (intra-port)
- On a “zone to zone transfer”, duty liability is moved to receiving FTZ (FTZ only)
- Once in-bonds are closed out properly and goods are exported, no duty paid, and FTZ/bonded warehouse bond released from liability

IR TAX DEFERRAL

Applies to both bonded warehouse and FTZ

What is it?

- IR taxes on wine, beer, spirits, and tobacco is normally due at time of entry (sometimes deferred if it is going to a TTB bonded facility)
- Goods going directly into an FTZ/Bonded warehouse in foreign status get a “one time” deferral of IR taxes until withdrawn for consumption
- Goods going directly into an FTZ/Bonded warehouse and then exported are exempt from IR taxes

How does it work?

- Goods need to arrive into the U.S., be bonded and be admitted into the FTZ/Bonded warehouse.
- When goods leave the FTZ/Bonded warehouse the IR taxes must be paid unless being bonded out of the country (TTB regulations)

BENEFIT: EXCISE TAXES MAY BE AVOIDED

if exported to a foreign country...



SCRAP AND WASTE SAVINGS

Applies to both bonded warehouse and FTZ

What is it?

- Waste – goods with no value that will be disposed of with no compensation
- Scrap – goods that are a byproduct of production or unusable inventory that will be sold to recyclers or other users as scrap

How does it work?

- Waste may be adjusted out of inventory without placing it on a customs entry
- Scrap must be placed on a customs entry under the correct scrap classification using the value for which such scrap was sold (Section 301/232 duties may apply)
- Old inventory that is no longer usable may be scrapped
- Goods sold as “clearance” cannot be withdrawn as scrap but may be “destroyed” in the FTZ

MPF SAVINGS

Applies to FTZ

What is it?

- Imported goods generally subject to MPF at .3464%, min \$32.71 and max \$634.62
- Weekly entry process only 52 entries per year, per FTZ – Max MPF \$33,000.24
- Companies previously paying in excess of \$33K per year in MPF (at the FTZ site) will realize savings

How does it work?

- Weekly entry process at FTZ (Wednesday through Tuesday)
- Estimate for the zone week filed on Tuesday (3461 Entry) and “Final” 7501 is filed the Wednesday following the end of that zone week.
- All entries for the zone week are subject to one MPF, capped at \$614.35
- Additional FTZ sites (other ports) are subject to MPF max separately

MPF SAVINGS EXAMPLE

Without FTZ



= \$330,002 spent

Ten shipments per week
(520 per year) at max
MPF – cleared separately

With FTZ



= \$33,000.24 spent

52 weekly entries
at max MPF

Annual MPF savings
of **\$297,002.16**

DUTY INVERSION

Applies to FTZ

What is it?

- Producing goods in an FTZ and using the lower of two duty rates – component or finished good
- Privileged Foreign (PF) – Keeps HTS and duty rates from date of admission
- Non-Privileged Foreign (NPF) – Assigns duty rates and HTS at time of withdrawal

How does it work?

- Foreign status goods admitted into zone based on preferred duty rate using PF or NPF status
- Components with lower duty rates than the finished goods are admitted under PF status
- Components with higher duty rates than the finished goods are admitted under NPF status
- When manufactured goods are withdrawn, NPF components take on duty rate of finished item, while PF components retain their original duty rate
- **Goods subject to Section 232/301 duties or AD/CVD must be entered under PF status**

DUTY INVERSION EXAMPLE

Automobile
Manufacturing



Tires –
4% duty



Windshield
moldings –
3.5% duty



Seatbelts –
3% duty



Seat track
assemblies –
duty free

NPF

PF

Withdrawn as



Finished automobile – 2.5% (includes
tires, windshield moldings, seatbelts)



Seat track assemblies –
duty free

HARBOR MAINTENANCE FEE

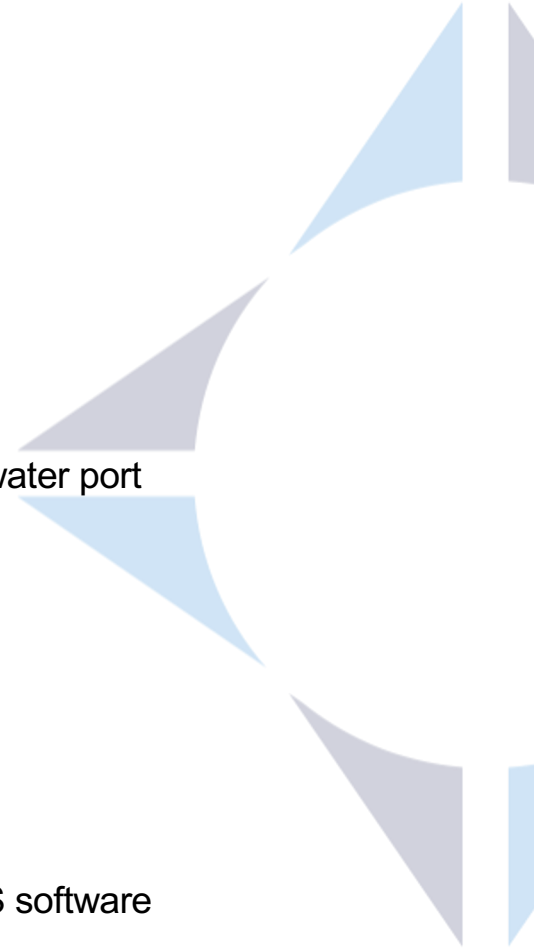
Applies to FTZ

What is it?

- Fee assessed by CBP on all goods arriving by vessel into an ocean or inland water port
- .125% of entered value, no minimum or maximum

How does it work?

- Regular entries must pay HMF with duties on ACH statement
- HMF is paid in an FTZ on a quarterly basis
- Basis for payment is admissions, not withdrawals
- Paid with CBP Form 349 by check or electronically via [pay.gov](https://www.pay.gov)
- Simplifies HMF payment into **four easy payments** – report generated by ICRS software





DEPARTMENT OF HOMELAND SECURITY
U.S. Customs and Border Protection

OMB APPROVAL NO. 1651-0055
EXPIRATION DATE: 8/31/2025

HARBOR MAINTENANCE FEE QUARTERLY SUMMARY REPORT

19 CFR 24.24

1. Select Identifying Number

2. Name of Company or Individual

3. Complete Mailing Address

SEND TO: **U.S. Customs and Border Protection**

Street: _____
City: _____ State: _____
Zip Code: _____ Check here if address has changed since last filing.
**Office of Administration, Revenue Division
6650 Telecom Drive
Indianapolis, IN 46278**

4. Reporting Period

Quarter (Select Only One)

Year: _____

1 (January 1st - March 31st)

3 (July 1st - September 30th)

2 (April 1st - June 30th)

4 (October 1st - December 31st)

| Type of Shipment (With Code) | A. Domestic Movements (503) | B. FTZ Admissions (505) | C. Passengers (504) | D. Total Column Value (A, B, & C) |
|---|--------------------------------|-------------------------|------------------------|--------------------------------------|
| 5. Value of Shipments | | | | |
| 6. Value of Exemptions (from corresponding columns A to D of line 15) | | | | |
| 7. Net Value (column 5 less column 6) | | | | |
| 8. HMF Due (multiply the amounts in column 7 by appropriate rate) | \$0.00 | \$0.00 | \$0.00 | |
| 9. Total HMF Due (Total of Lines 8A through 8C) | | | | \$0.00 |
| Itemization of Exemptions | A. Domestic Movements | B. FTZ Admissions | C. Passenger Movements | D. Total (A, B, & C) |
| 10. Exempt Port | | | | |
| 11. Inland Waterway Fuel Tax | | | | |
| 12. Inraport | | | | |
| 13. U.S. Mainland-State/ Possession/Territory | | | | |
| 14. Other | | | | |
| 15. TOTALS (Items 10-14) (Also enter amounts in corresponding boxes) | | | | |

WEEKLY ENTRY SAVINGS

Applies to FTZ

What is it?

- FTZ's can file a weekly entry estimate (3461) for the zone week at the start of the zone week (Wed to Tue)
- At the end of the zone week a "final entry" is presented with actual amounts withdrawn
- Final entry amounts cannot exceed amounts on weekly estimate

How does it work?

- The weekly estimate (3461) is filed for all goods that will be removed for sale or production in the upcoming week
- Any goods on the estimate, up to the stated quantities, can be shipped or used in the zone week
- Reduces entry count to 52 entries per year

WEEKLY ENTRY SAVINGS

Why are my savings not as much as forecast?

- Supplemental weekly entry filings (over the estimated amounts)
- Drop shipments cleared in remote ports
- Movement of goods from port to FTZ requires 7512 in-bond or ePTT, incurring additional charges
- Weekly entry filings for FTZ typically carry higher fees than regular entries due to size
- Complex supply chain with multiple forwarders may cause confusion resulting in port clearances instead of bonding to the FTZ

BONDED WAREHOUSE & FTZ COMPARISON

Bonded Warehouse

- Only foreign goods can be stored
- Goods allowed for 5 years
- Manufacturing in only a Type 6 warehouse
- Customs entry upon entry and exit of goods
- Time to set-up 30-45 days
- Special software not required
- Minimal fees, no annual fees
- Inside Customs territory

FTZ

- Foreign & Domestic goods allowed
- Goods allowed indefinitely
- Manufacturing allowed
- Weekly Customs entries
- Time to set up 6-12 months
- Special software preferable
- More costly set-up & annually
- Outside Customs territory

SAVINGS RECAP - COMPARISON

FTZ

- Duty deferral and avoidance
- MPF savings and HMF deferral
- Duty inversion
- IR tax deferral or avoidance
- Scrap, waste, and destruction
- Weekly entries
- Zone-to-zone transfers

Bonded Warehouse

- Duty deferral and avoidance
- MPF Deferral
- IR tax deferral or avoidance
- Scrap, waste and destruction



QUESTIONS?



Cindi Kavanaugh

Senior Consultant

Mohawk Global Trade Advisors

ckavanaugh@mohawkglobal.com

