

***Deep Dive on Computed
Value: The Primary Valuation
Method for Imports from
Maquiladoras in Mexico***



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Road Map for Today's Discussion



Review of Computed Value principles and methods of appraisalment



Completing annual cost submission



Reconciliation as a mechanism to report corrections to declared value



FAQs

Computed Value



Customs Valuation – 5 Hierarchical Appraisement Methods

Transaction Value

- *Price actually paid or payable plus certain statutory additions*
- *Arm's length price demonstrated to include all costs plus a reasonable profit for related party transactions*

Transaction Value of Identical or Similar Merchandise

- *Based on the transaction value of previously imported merchandise*

Deductive Value

- *Selling price in the United States less certain post-importation costs*

Computed Value

- *Foreign supplier cost and expense information for materials, processing, profit, general expenses, etc.*

Fallback Method

- *Based on a modified version of 1 of the above 4 methods*

Transaction Value Defined

- **Price actually paid or payable for merchandise when sold for exportation to the United States, plus certain statutory additions to the price.**
- **“Price Actually Paid or Payable”**
 - the total payment for the imported merchandise from the buyer to the seller
 - often the invoice price, but certain upward and downward adjustments may be required
- **Must have a sale to use transaction value.**
- **Related party sales must be at arm’s length and meet one of the circumstances of sales tests**
 - Must be able to demonstrate all costs plus a profit;
 - Comparable sales to unrelated parties in the U.S.; or
 - Pricing practices of the industry

Appropriate Method of Appraisement

With maquiladora shipments, it is difficult to support transaction value given that:

- Invoiced price does not generally include all costs plus a profit;
- Invoiced price seldom reflects fully-loaded cost of production and required additions;
- Assist values such as capital equipment depreciation and actual material costs are often excluded from standard cost;
- There is typically no arm's length sale for exportation to the United States; and
- Payment is not generally tied to individual import transactions.

Customs generally has held that a computed value method of appraisement is most appropriate for imports made from a maquiladora assembly operations.

Computed Value

- **The computed value of imported merchandise is equal to the sum of the following 4 elements:**
 - Cost or value of materials, fabrication, and other costs necessary to produce the imported merchandise;
 - Profit and general expenses equal to those usually reflected in sales of merchandise of the same class or kind as the imported merchandise that are made by the producers in the exporting country to the U.S.;
 - Assists, if not otherwise included above; and
 - Packing costs, if not otherwise included above-.



Computed Value (cont.)

- **Stated another way, computed value includes:**
 - Actual material costs (including southbound freight)
 - Total foreign operating and general expenses (including packing costs) related to the production of the imported product
 - Assists
 - Profit
- **These are the basic elements outlined in U.S. Customs' cost submission form**
 - Customs Form 247 (<https://www.cbp.gov/document/forms/form-247-cost-submission>)
 - Preferred (expected) way to calculate actual value of maquiladora imports
- **In the old days, cost submission was prepared, submitted, and simply assigned to the next entry.**
- **Today, cost submission is the underlying support for a Reconciliation entry.**

Step One – Material Costs – U.S. Books – CF-247

1. Material Components Cost

a. Non-Dutiable Cost

Material

Scrap

Freight

b. Dutiable Cost

Material

Scrap

Freight

Total Material Components Cost

\$ _____

Step One - Material Costs

Material Component Costs

- Material Cost
- Freight
- Variance
- Scrap (less recoverable scrap)

Importer's option to capture material costs for

- Northbound shipments
- Southbound shipments
- Beginning inventory + Purchases – Ending inventory
- Must remain consistent year-to-year with methodology chosen

Material Costs (cont.)

- **Traditionally, material costs for the cost submission were broken out as “dutiable” and “non-dutiable.”**
- **Cost submission template breaks out dutiable and non-dutiable material costs to reflect use of Heading 9802.**
- **“Non-dutiable” material costs include:**
 - Components which are U.S. origin and in condition ready for assembly and for which entry under HTSUS subheading 9802.00.80 is made.
- **Freight associated with the 9802 materials (only those to the U.S. border) may be included in the non-dutiable portion of material cost.**
 - Foreign freight (from the border to the maquiladora) remains included in the value of freight associated dutiable materials.
- **Regardless of breakout, goal is to calculate ACTUAL material cost for the period.**

Material Costs (cont.)

- **Total material costs must be reported for product imported during the corresponding period.**
- **Material costs can be pulled for a given period from**
 - All materials sent southbound
 - All materials sent northbound
 - Beginning Inventory plus Purchases less Ending Inventory
- **If capturing the value of materials sent northbound (*i.e.*, imported into the U.S.), must also account for scrap that is not otherwise recovered and returned to the U.S. or sold in Mexico.**
- **All materials shipped into Mexico must be captured, whether sent from the U.S., from Asia, or elsewhere.**



Material Costs (cont.)

In addition to standard material costs, all freight, insurance, and duties paid to deliver materials to the maquiladora must also be captured.

- Material “assist” value is defined as the cost of production or cost of acquisition, plus freight.

In order to ensure reporting of actual material costs (including freight), must also capture

- All purchase price variances where material was provided at standard cost.
- All labor and usage variances where component production occurred in U.S.
- Ideally, material variance is taken against product shipped to Mexico, however, if unavailable, can utilize other options
 - Related to specific product lines
 - Overall company variance

Material Costs (cont.)

- **All southbound freight expenses.**
- **Including freight variances where standard includes some allocation for southbound freight.**
 - Southbound freight should be tied to general ledger figures or payment records.
 - Freight includes costs to ship product to the maquiladora's dock
 - from the US, and
 - from Asia or elsewhere.



Material Costs Summary

If capturing material costs based on northbound shipments, scrap must be captured, less any recoverable scrap returned to the U.S. or sold in Mexico.

If standard material cost includes a factor for scrap, scrap variance is needed to calculate actual scrap costs.

If material cost is based on southbound shipments sent during the corresponding period, scrap is excluded from material cost calculation.

- Can still deduct recoverable scrap

Also, materials that are transferred to other maquiladoras or within Mexico can be excluded from material cost as they were not imported.

However, materials purchased within Mexico must be included in material cost.

Careful consideration regarding the treatment of HTSUS subheading 9802.00.40/50 for articles returned for repair (under warranty or otherwise).

Step Two - Foreign Operating Expenses – Maquila Books

2. Foreign Operating Expenses

a. Direct Labor	_____
b. Overhead:	
Production	_____
General & Administrative	_____
Total Operating Expenses	_____
c. Less: Non-Dutiable	_____
d. Net Operating Expenses	(_____)

Foreign Operating Expenses

- **Foreign Operating Expenses include, among other things:**
 - Direct and indirect labor costs, including all fringe benefits, medical, transportation, etc.
 - profit sharing amounts are included in the cost submission as they are considered part of the employees' salary
 - Production overhead and other factory overhead taken from the expense accounts in the factory ledger.
 - General and administrative expenses, including fringe benefits of administrative, clerical, and janitorial staff.
 - Interest expense related to production operations
 - Any and all expenses related to the production of the merchandise.

Foreign Operating Expenses

General rule requires all of the foreign assembler's production and general expenses be included in calculating the amount for "profit and general expenses" in any computed value calculation.

Unless the amount for profit and general expenses is inconsistent with the amount for profit and general expenses reflected in sales of merchandise of the same class or kind, the foreign operating expenses of the maquiladora will be included.

Ideally, the foreign operating expenses should be tied to the company's audited Mexican financial statement and general ledger detail

- prepared in accordance with Mexican GAAP ("Dictamen").
- reported in U.S. dollars based on reported monthly exchange rates (or the average daily exchange rate for the year)

However, sometimes the audited financial statements are not available, so we can use:

- Internal financial records
- SAT tax return

Foreign Operating Expenses (cont.)

Certain limited costs can be excluded from foreign operating expenses where they do not relate to the manufacture of the imported merchandise.

For example, some items that may be excluded include:

- Foreign operating expenses included in goods transferred within Mexico or to other non-U.S. countries
- Currency gains and losses
- Interest income
- Bank finance charges
- Extraordinary expenses like fire loss expenses or other unusual losses, like crop losses
- Foreign operating expenses clearly unrelated to the production operations
 - Such expenses should be tracked and maintained separately on the books of the maquiladora in accordance with the Mexican GAAP.
 - Example, global accounting services provided by accounting staff located at the maquiladora.

Examples of Foreign Operating Expenses

- Loan interest expense
- Expenses incurred by the factory which are reimbursed by the importer
- Prepaid transportation costs
- Prepaid insurance premiums
- Export incentives if they are reflected in profit and general expenses
- Costs for U.S. expenses if they are reflected in general expenses for foreign manufacturer
- Rent expenses, even for unused space
- Excess start-up and pre-production costs
- U.S. Customs duties if recorded as expenses by foreign manufacturer
- Severance expenses

Step Three – Assists – U.S. Books

3. U.S. Assist Costs* (other than materials included in item 1)

a. Tools, dies, molds and similar items

b. Merchandise consumed in production

c. Engineering, development, artwork, design work and plans
and sketches undertaken outside the United States

d. Depreciation of general purpose equipment

Total Assist Costs

\$

What is an Assist?

- **Assists are any of the following if supplied directly or indirectly to the seller free of charge or at a reduced cost for use in the production of the imported merchandise:**
 - Materials, components, parts and similar items used in production.
 - Tools, dies, molds and similar items used in production.
 - Merchandise consumed in production.
 - Engineering, development, artwork, design work, plans and sketches that:
 1. are undertaken elsewhere than in the United States, and
 2. are necessary for the production of the imported merchandise.



What Is the Value of an Assist?

The value of an assist (whether materials, tools, foreign engineering, etc.) is generally either:

- the cost of **acquiring** the assist, if acquired by the importer from an unrelated seller, plus freight costs; or
- the cost of **producing** the assist, if produced by the importer or a person related to the importer, plus freight costs.

Used capital equipment is generally valued at its depreciated value at the time of transfer.

Assist value must also include the cost of transporting the assist to the place of production.

Assists (cont.)

- **Often an area that is inadvertently overlooked.**
- **Careful review of U.S. accounts associated with the maquiladora is important, with written internal controls on specific accounts to be included recommended.**
- **Common assists include:**
 - Materials and components sent to Mexico for assembly (captured in material costs on the cost submission).
 - Capital equipment located at the maquiladora whose depreciation is carried on the US books.
 - Capital equipment carried on the Mexican books should be captured as part of foreign operating expenses
 - Value is the annual depreciation cost
 - Tools, dies, molds, and similar items used in Mexico and expensed in current period and paid for by the U.S.
 - Watch for third-party or “customer funded” tooling that has been provided to the maquiladora.
 - Tooling provided to subcontractors for product or equipment shipped to the maquiladora.

Assists (cont.)

- **Additional assist examples to watch out for include:**
 - Consumable supplies such as grease, oil, solvents, production supplies.
 - Employee uniforms, gloves, protective goggles.
 - Design work outside the United States, even if only partially used by Mexico operations, it may be proportionally reduced in a reasonable method.
 - Anything related to the production in Mexico that is not otherwise captured within the Mexican foreign operating expenses.
 - Salaries and expenses associated with employees at the maquiladora that are carried on the U.S. books may be considered assists.
 - First line supervisor and below
 - Operations and Plant Managers whose salaries are carried on the U.S. books are not assists
 - If, however, their salary is paid by the maquiladora, then it is properly included in the foreign operating expenses (general expense) and reported as part of the cost submission.

Assists (cont.)

Items carried on the U.S. books not considered to be assists

- Expenses for accounting and personnel services in Mexico, etc.
- Engineering and development expenses related to the imported merchandise that were incurred in the U.S.
- Depreciation on equipment not used in production operations (e.g., front office computers, air conditioning equipment, microwaves for breakrooms, etc.)
 - Testing equipment used after production and not essential to production
- Northbound freight expenses (unless they're captured in foreign operating expenses)

Importantly, any southbound freight associated with identified assists, such as capital equipment or expense tooling shipped to the maquiladora *is part of the assist value and must be captured.*

If necessary, Customs will generally accept reasonable allocations of freight costs.

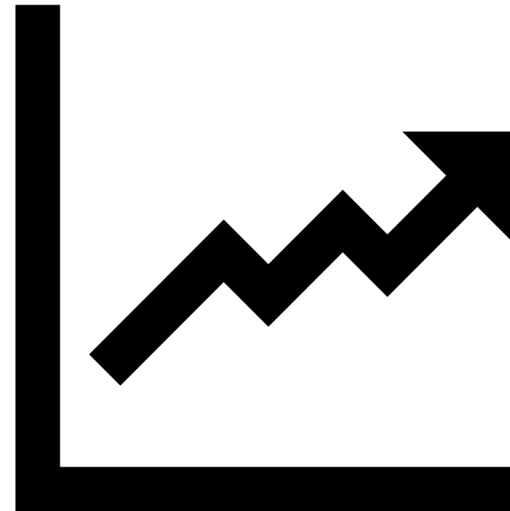
Step Four – Profit and Packing – Maquila Books

4.	Profit (Actual)*	_____
4a.	Packing	
	U.S. Packing	_____
	Foreign Packing	_____
		Total _____
5.	Total Value	\$ _____

The above information constitutes your submission of actual costs and value.

Profit

- **Computed value requires the reporting of the foreign producer's profit.**
- **The cost submission provides for profit as a separate line item.**
- **Profit should tie to the maquiladora's operating profit as reflected on the audited Mexican financial statement, reduced by any profit for Mexican sales.**
 - Converted to U.S. dollars using a weighted average currency conversion for the 12 month period.
 - The goal is to tie this profit figure to the maquiladora's financial records.
 - Include supporting documentation within the Excel workbook to support reasonable care and audit process.



U.S. and Foreign Packing

- **Where packing is separately tracked and accounted for outside of the material costs**
 - Allowed to deduct U.S. packing costs where HTSUS 9801 was claimed upon importation.
 - Adding them into the cost submission in Section 4a, and then backing them out again in allowable deductions in Section 6.
 - Foreign packing materials and costs should be included within the cost submission and total calculated dutiable value.



Completion of Cost Submission – Trade Group

- Upon completion of the cost submission there will be a “total value”
- This total value must be reduced by the value of all sales from Mexico for finished goods that were imported by Company
- This total value will then be compared against the total value declared to Customs during the corresponding period for product produced at the maquiladora.
- Any difference in value should then be allocated against those products produced or manufactured in the maquiladora (where there was value added).
- The value of product simply returned to the U.S., such as obsolete inventory or scrap, should not be adjusted.
- Similarly, returned used equipment to the U.S. should not be further adjusted.

Completion of Cost Submission (cont.)

- **Importer will need to identify those Tariff Classification, Special Preference Programs, and Origin combinations against which any calculated delta in value should be allocated.**
- **Use of ACE data or similar comprehensive import detail is useful to identify product categories,**
 - Product produced or manufactured in Mexico/Canada. (Yes, allocate value)
 - Returned/obsolete inventory (No, do not allocate value)
 - Recovered scrap (No, do not allocate value)
 - Returned capital equipment (No, do not allocate value)
 - Packing materials (No, do not allocate value)
- **Weighted allocation of any value adjustment between calculated actual value (via cost submission) and declared entered value for product produced during the corresponding period.**
- **Coordinate reconciliation filing with customs broker to make required value adjustments.**

Computed Value Variance Calculation Example

Computed Value Component	Total
Materials	\$246,000,000
+ Fabrication and Gen. Exp.	\$17,250,000
+ Operating Profit	\$1,750,000
+ Assists	\$6,000,000
+ Packing	\$0.00
= Total Computed Value	\$271,000,000
- Declared Value (ACE)	\$260,000,000
= Computed Value Variance	\$11,000,000
Variance/Declared Value	4.23%

- High level summary
- Assumes packing is included in materials
- ACE value
 - Based on further processed entry lines
 - Excludes unused material returns and equipment transfers
- Computed Value Variance
 - Applied to flagged entry lines of further processed shipments
 - Value variance is not applied to equipment transfers or other non-computed value shipments

Internal Controls – Cost Submission

Documented Internal Controls should include:

- Assigned responsibilities by team member position.
- Clear reference to supporting documentation, where it can be pulled (e.g., G/L accounts), and responsible functional areas will be identified.
- Timelines and specific dates to complete the cost submission in coordination with the Import Compliance team.
- List of steps to coordinate with the customs broker filing the reconciliation.

All records and supporting financial detail must be maintained for 5 years after the filing of the corresponding reconciliation entry.

This extends the normal 5 year period from the date of entry for Customs records by as much as 21 months.

Reconciliation



What is Reconciliation?

- **Value reported at entry for maquiladora assembly operations generally reflects established standard costs for the period**
 - Standard cost often fails to capture all required assists, year-end adjustments, and other corrections.
- **Cost submission and Reconciliation filing allows the importer, using reasonable care,**
 - to file entry summaries with Customs with the best available information,
 - with the mutual understanding that certain value elements or adjustments remain outstanding.
 - At a later date, when the specifics have been determined, the importer files a Reconciliation which provides the final and correct information.
 - The Reconciliation is then liquidated, with a single bill or refund, as appropriate.
- **Given delays in finalizing year-end financial data for maquiladoras, including provision of audited financial statements, Customs extended the reconciliation period to 21 months from date of entry.**

Reconciliation Process

Formal reconciliation entry must be filed electronically in coordination with customs broker.

- Entry-by-entry reconciliation, required if refunds desired, or
- Aggregate reconciliation filing
 - Rolled up summary detail at each unique combination of HTSUS, SPI, Origin, and Year

For maquiladoras, the cost submission represents the support for the reconciled values and is demonstrative of an importer's reasonable care obligations.

When building the cost submission, Excel workbook should include all supporting financial records.

Summary Advice



In most cases, Maquiladora importations should be appraised under computed value, which essentially means the imports need to be flagged for reconciliation.



Put together the cost submission with the full audit trail to supporting documentation so you're prepared to substantiate the value to CBP.

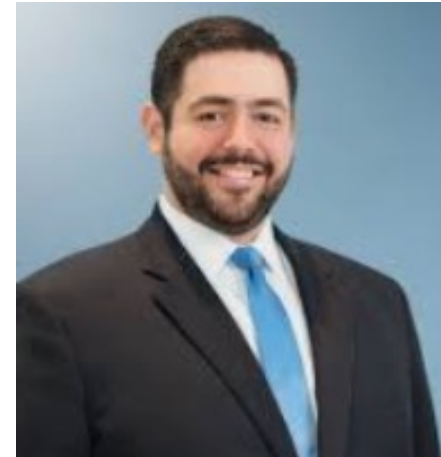


If you can't figure it out, find someone that can help. There are lots of nuances in computed value that make each cost submission unique.

Questions?



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