



DUTY DRAWBACK

A 101 GUIDE

Duty drawback is a Customs and Border Protection (CBP) program where companies are refunded up to 99% of customs duties, taxes and/or fees that were previously levied upon imported merchandise, and of internal revenue taxes paid on domestic alcohol as well as other excise taxes. Duty drawback, however, is one of the most complicated commercial programs managed by CBP. Thus, it is important to have a clear understanding of all facets of how the program works and develop a relationship with a reputable drawback broker, who can help you navigate the rules and international laws.

The team at Ascent Global Logistics is ready to help you work through these complexities by determining if your situation qualifies for the Drawback Program.



Do You Qualify for a Drawback?

To qualify, you must meet one or more of the following criteria, as noted by the U.S. Department of Commerce:

- An importer who exports/destroys
- An importer who manufactures and exports/destroys
- A purchaser of imported merchandise who manufactures and exports/destroys
- An exporter who purchases a product made from imported merchandise
- An exporter who purchases imported duty-paid merchandise that is not used in the United States
- An exporter of record with drawback rights

Quick Facts

- Export incentive program
- Can get up to 99% of imported duties, taxes and fees
- If approved by CBP for Accelerated Payment, can receive refund in less than 30 days
- Must maintain good records to participate in the drawback program



Imported Merchandise

Duties are levied on imported merchandise upon arrival



Exported Merchandise

Merchandise will need to be exported between time of import and the claim being filed



Claim Filed

Maximum of five years between being imported and claim being filed

Duties Eligible for Drawback

Common Duties Eligible for Drawback

- All ordinary customs duties
- Voluntary tender
- Duties paid as part of a prior disclosure
- Marking duties
- Internal revenue taxes
- MPF (merchandise processing fees)
- HMF (harbor maintenance fees)
- 1592(d) duties
- Section 301 duties for Chinese goods (subject to change)

Duties NOT Eligible for Drawback

- Anti-dumping and countervailing duties
- Limitations on over-quota agricultural products
- Duties may not be refunded on flour or by-products produced from imported wheat
- Section 232 duties imposed on any aluminum or steel articles



Most Popular Drawback Types

Unused Merchandise Drawback: Imported merchandise that was not used in the United States before it was exported or destroyed under CBP supervision. There are limited operations that can be performed on the merchandise while in the United States (i.e. repacking and testing).

- **Direct Identification:** Imported, unused merchandise must be identifiable by serial number, lot number or approved accounting method.
- **Substitution:** Substituted merchandise classified under the same eight-digit HTSUS (Harmonized Tariff Schedule of the United States) as the designated imported merchandise. Limitations apply if the eight-digit HTSUS starts with the term "other." There are also special lesser of rules that apply to the allowable refund.

Manufacturing: Imported articles used in manufacturing or production that are later exported or destroyed under CBP supervision. Drawback rulings are required for eligibility.

- **Direct Identification:** Merchandise or articles must be identified by serial number or approved accounting method.
- **Substitution:** Substituted merchandise used in manufacturing or production must be classified under the same eight-digit HTSUS as the designated imported merchandise. Special lesser of rules for allowable refund do apply.

Rejected Merchandise Drawback: Merchandise that is defective, does not meet specific standards or is shipped without consent that is exported back to the overseas manufacturer or destroyed.

It is important to understand the different types of drawback. By knowing specific information about your imports and exports and the duty drawback they qualify for, you are more likely to maximize earning potential.

Top Drawback Commodities

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Petroleum, Petrochemicals	Pharmaceuticals	Automotive, Automotive Parts
Medical Devices	Textiles, Footwear, Apparel & Accessories	Electronics
Jewelry, Watches	Aerospace	Wine, Spirits, Tobacco

Calculate Drawback Potential

How to Calculate Drawback Potential

Calculating drawback potential will give you a rough estimate of how much earnings potential your company has. Below is an example:

Annual Duty: \$10,000,000

Annual Export Sales: 20%

$\$10,000,000 \times 20\% = \$2,000,000$

$\$2,000,000 \times 99\% = \$1,980,000$

Multiply your estimated annual drawback eligible duty paid by the percentage of sales that are exported annually; multiply by 99%.

Note: This is only an estimate. The best way to be sure you are maximizing your duty drawback claims is to get an expert opinion.

Your Solution to Duty Drawback

- Export incentive program
- Can get up to 99% of imported duties, taxes and fees
- If approved by CBP for Accelerated Payment, can receive refund in less than 30 days
- Must maintain good records to participate in the drawback program



4 Key Tips for Filing Duty Drawback

Duty drawback can be a great opportunity for companies to save on duties, but to utilize it to its full extent, it is necessary to understand the intricacies of the program. There are strict time frames that must be abided by and recordkeeping is imperative. The duty drawback regulations have changed recently due to TFTEA (Trade Facilitation and Trade Enforcement Act) and manual claims are no longer accepted, however Ascent Global Logistics can help you get your duty drawback claim filed electronically under the new regulations.

Below are a few tips and tricks from the Ascent Global Logistics Duty Drawback team on how to get started and participate in duty drawback.

1

Tips for CBP Form 7553 (Notice of Intent to Export, Destroy or Return Merchandise for Purposes of Drawback)

Should I fill out a CBP Form 7553 (Notice of Intent to Export, Destroy or Return Merchandise for Purposes of Drawback) or go through the duty drawback application process?

CBP Form 7553 must be filled out and sent to U.S. Customs prior to the shipment being exported or destroyed. Why is it important to fill out the CBP Form 7553 first?

- It allows Customs to thoroughly examine the merchandise or waive their right to the inspection and sign off on the CBP Form.
- This is an option for smaller companies that do not export often.
- Only after the merchandise has been exported or destroyed can the drawback claim be filed.

4 Key Tips for Filing Duty Drawback

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Tips for the Drawback Application Process - Privileges

There are a few drawback privileges offered by U.S. Customs that can be taken advantage of:

- For past shipments, a one-time waiver of prior notice of intent to export (OTW) may be filed
- For future shipments, a waiver of prior notice of intent to export (WPN) may be filed
- Accelerated Payment (AP)

A combined privilege application allows claimants to use a combination of these privileges in one application instead of filing individual applications, saving time and money.

3

How to Get the Most of Accelerated Payment (AP)

- A claimant must be accepted by CBP for Accelerated Payment
- If approved, claimants can receive their refunds in just a few weeks
- A Drawback bond is required

4 Key Tips for Filing Duty Drawback

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What Documents to Keep for Duty Drawback

As a rule, claimants are legally obligated to hold certain records:

- Import records
- Inventory records
- Manufacturing records
- Records on the exportation of all goods involved

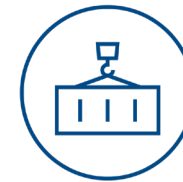
Documents must be kept for three years after a claim is filed, starting from the date of liquidation of the drawback claim.

What's Next?

Due to all of the recent changes to duty drawback, it is important to have an experienced team on your side.

Start building your solution today with Ascent!

Recordkeeping: A General List of Documents to Retain



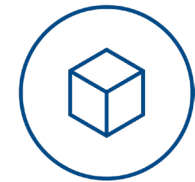
IMPORTS

CBP Form 7501
Invoice
Packing List
Purchase Order
Bill of Lading



MANUFACTURING

Bills of Material
Waste Records



EXPORTS

Invoice
Packing Lists
Bill of Lading
Air Waybill
Freight Waybill
Mexican Pedimento
Canadian B3
Cargo Manifest



WAREHOUSE

Inventory In Records
Inventory Out Records

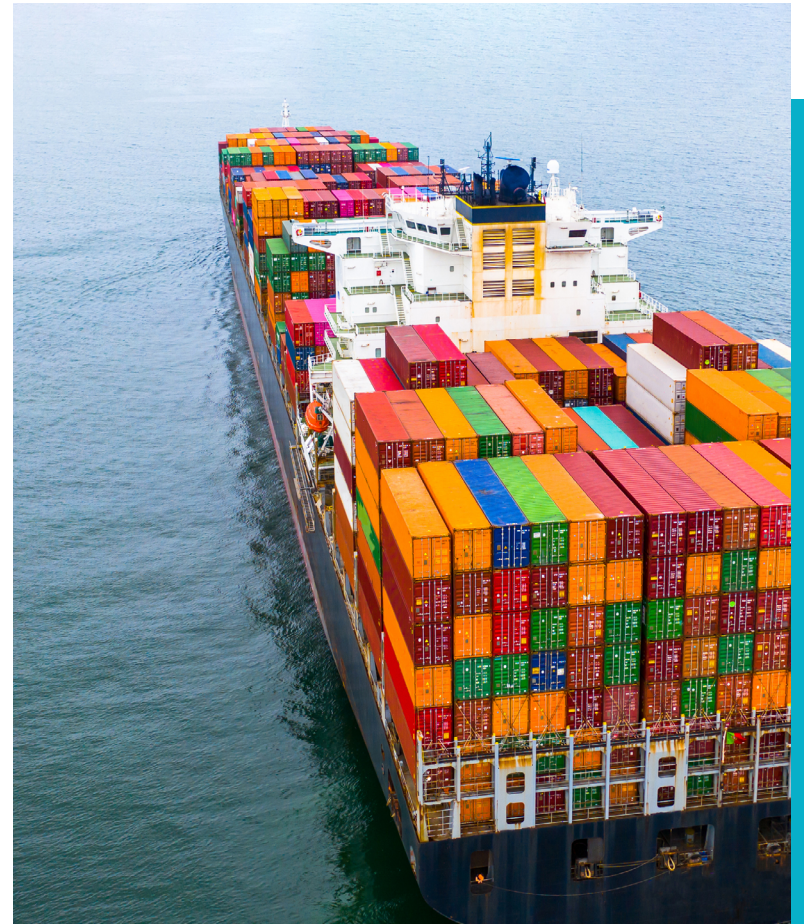
How to Navigate TFTEA Regulations During the Duty Drawback Process

The Trade Facilitation and Trade Enforcement Act of 2015 (TFTEA) is an authorization of CBP's trade authority and was enforced to create an environment for fair, honest and competitive trade in the United States. Section 906 of TFTEA made a comprehensive set of changes to drawback claim filing. Even though TFTEA was only signed into law in 2016, it is necessary to know these recent changes since it greatly affects the drawback application process.

Ascent Global Logistics has the knowledge and skills necessary to make sure your company complies with these new changes and follows the drawback law according to TFTEA and NAFTA regulations.

What is TFTEA?

TFTEA was signed into law on February 24, 2016. Section 906 of this act made specific changes to the drawback law and filing process. As of February 24, 2019 all drawback claims must be filed under the new TFTEA regulations. Calculating TFTEA claims varies depending on the type of drawback the claimant is filing under. According to U.S. Customs and Border Protection, "This Act supports CBP's efforts to protect U.S. Economic Security through Trade Enforcement; collaborate with the Private Sector through direct engagement; and streamline and modernize processes through Business Transformation initiatives to meet the demands and complexities of a rapidly evolving global supply chain."



TFTEA Requirements

What is Required for Claim Filing Under TFTEA Modernized Drawback?

According to CBP, unless otherwise specified, for a drawback claim to be complete under TFTEA it must include:

- The successful electronic transmission to CBP of the drawback entry
- Applicable Notice(s) of Intent to Export, Destroy or Return Merchandise for Purposes of Drawback on CBP Form 7553
- Depending on the type of claim being filed, additional applicable documents could be required
- Applicable import entry data and evidence of exportation or destruction

Please note that TFTEA claims require line level reporting from the CBP Form 7501.

What is No Longer Required Under TFTEA?

- Claims must be made electronically as the ability to file paper is no longer available
- Certificate of Delivery (CD) / Certificate of Manufacture and Delivery (CMD)
 - They are no longer required but can still be helpful if the claimant is unable to prove the transfer of merchandise

How to Navigate NAFTA Regulations During the Duty Drawback Process

NAFTA

NAFTA, the North American Free Trade Agreement, was signed into law on December 8, 1993 and took effect on January 1, 1994. NAFTA creates a trade block amongst the three major countries of North America: The United States, Mexico and Canada.

Under NAFTA, drawback is payable on the lesser of:

- Duties paid or owed on the merchandise in the U.S., or
- Total amount of duties paid on the exported goods into Canada or Mexico

Under current administration, there are tentative plans to move from NAFTA to USMCA (United States-Mexico-Canada Agreement), which would also affect the drawback claim filing process. According to the United States Trade Representative, “the USMCA can come into effect following the completion of TPA procedures, including a Congressional vote on an implementing bill.”

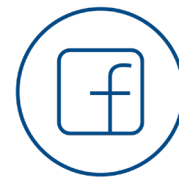
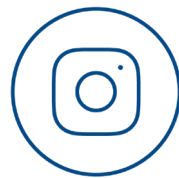
It is important to stay up to date with compliance news to be sure that claims are being filed correctly in the case of new laws and regulations. Ascent Global Logistics will navigate the complexities of TFTEA and NAFTA regulations for you to ensure that you get the most from your duty drawback claim.





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