IMPORT DUTIES & TAXES

Expanding your customer reach & boosting revenue can be achieved through international shipping. However, there are certain obstacles to overcome, with one being the complexities of adhering to the unique tax and duty regulations of various countries. Non-compliance with these rules could potentially lead to customs delays or substantial penalties.

Let's simplify the information you require to make sure your shipments consistently reach international customers on schedule.

What is import duty?

Import duty (or customs duty) is a tax collected by customs authorities on all goods sold across borders. The aim of import duties is to raise income for local governments - but also to increase the end price of the goods for consumers, thus encouraging them to buy from the domestic market, which is not subject to this tax. Common examples of import duties are trade tariffs and excise duties.

What is import tax?

Import tax is a flat tax rate charged by customs on imports. In many cases, the tax is equal to the local sales tax. Even when the goods have been purchased abroad, this consumption tax will still apply when they enter a different country. Examples include sales tax and value-added tax (VAT).

How do duties and taxes impact your shipment?

Duties and taxes will impact the total cost of your shipment, so it's important you are aware of them early on. You can then factor them into your pricing strategy to ensure your business remains profitable. Additionally, failing to manage duties and taxes properly could cause your shipment to be held up at customs - not to mention any fines you may have to pay.

How much is import tax?

Many countries have a minimum threshold of order value that goods have to meet before taxes and duties apply - this is called a de minimis.

The amount of tax and duties you'll need to pay for a shipment are influenced by several factors, including:

- The value of the goods (including insurance and shipping fees)
- The goods description
- The country or region of origin
- The destination country's tariff rates
- The goods' HS code(s)

What is an HS code?

A Harmonized System code is a unique identifier to classify the exact type of goods being shipped. The system is internationally recognized; the customs department of a country defines different regulations based on different classifications. When you fill out a waybill for your international shipment, you will be required to enter the HS code(s) of the goods. Customs authorities will use this code to understand what is being shipped and apply the correct taxes and duties. If you include the incorrect code, you could end up paying the wrong rate, or worse, have your shipment rejected by the destination country. Thus, it's important to get it right. Here's a dedicated HS code guide to help you.

Parties responsible for import taxes and duties

So, who is responsible for paying the import taxes and duties on a cross-border shipment? Here's where it can get a little complex, so let's break down the different parties and their responsibilities.

Carrier: this is the service that transports the shipment cross-border, for example, DHL Express. In international trade, the carrier acts as a customs broker, managing border documentation for clients so that their goods clear customs without any problems. The carrier is also responsible for collecting all associated import taxes and duties.

Exporter and importer: in the case of a cross-border, B2C e-commerce transaction, the seller sending the goods out of the country is the exporter, whilst the customer buying the goods is considered the importer. The party responsible for paying the taxes and duties passed on by the carrier is determined by an internationally recognized set of rules called Incoterms.

Incoterms are agreed between the exporter and the carrier. The two most common are:

- **Delivered Duty Paid (DDP).**
  This is when the seller takes responsibility for the transportation of the goods (including the associated fees), and paying all import taxes and duties due when the shipment crosses borders.
- **Delivered Duty Unpaid (DDU).**
  In this instance, the seller is responsible for delivering the goods to their destination and the cost of their transportation, but the customer must pay all associated import taxes and duties to the carrier when they receive the package.

It goes without saying that the latter is not so popular with customers. It may seem the cheaper option for your business, but can you afford to damage the customer experience in this way? Disgruntled customers won't return!

Importer of Record: This is the individual or entity responsible for ensuring import compliance. They must manage all paperwork (such as licenses and certificates) needed for the import, as well as covering all duties and taxes. In the instance of DDP, for example, the seller is the Importer of Record.

Considerations when shipping internationally

There is a lot to plan for when shipping to a new cross-border destination, including:

- The destination country's customs regulations. It's important to research the local import tax and duty rates to factor into your costs. Get started with DHL Country Guides.
- Shipping documentation and paperwork. This may include an accurate and detailed commercial invoice, waybill, and bill of lading.
- It goes without saying that you want your shipment to arrive at its destination in perfect condition. Goods should be packed in correctly sized boxes to optimize space (and thus minimize your shipping costs!), with labels displayed clearly. Bonus points for green packaging!
- Prohibited and restricted items. Goods shipped without the correct certificates or permits could be seized by customs or earn you a hefty fine.
- Insurance. This will give you peace of mind in case something does go wrong - such as a damaged or lost shipment.

Managing customs declarations

When shipping goods internationally, you'll be required to complete customs declarations forms, including a commercial invoice.

This is a specialized export document containing comprehensive information about the goods that customs authorities will use to calculate the taxes, tariffs and duties due. You can cut costs by managing customs declarations yourself, or you can engage a customs broker.

Choose a customs brokerage service
Partnering with a customs broker will mean your business has access to a global network of customs experts, worldwide.

Prepare your customers for paying import duties
Lastly, remember that whatever incoterms you choose for your international shipments, be clear about them to your customers upfront. Surprising them with high shipping fees at the very last moment is a sure way to lose the sale.

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