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Issues relating to Valuation and Classification are among those most closely reviewed by U.S. Customs & Border Protection (CBP). These issues speak to one of CBP's chief responsibilities: to protect the revenue of the United States government. Improper valuation can dramatically affect the amount of duties paid by the importer. Gaining an understanding of invoice terms is critical for accurate determination of the correct dutiable value. The responsibility and goal of the importer is to report the lowest dutiable value as allowed for under the law. Valuation is covered in Customs Regulations in Title 19, section 152.

Price Paid or Payable

In most cases, the "transaction value" is the entered value that is reported for Customs purposes. The transaction value is best thought of as the *price paid or payable*, which is defined as "the total payment made, or to be made, for imported merchandise by the buyer", whether direct or indirect, and exclusive of any charges, costs, or expenses incurred for transportation, insurance, and related services incident to the international shipment of the merchandise from the country of exportation to the place of importation in the United States. (19 CFR 152.102(f)).

The first step in establishing the entered value (dutiable value) is to review the terms of sale, also known as the Incoterms. These terms of sale identify which charges are to be included or excluded from the invoice price. It can then be determined what should be added to or deducted from the invoice price to reach entered value.

The most common terms are:

- ExWorks
- FOB – freight on-board at a particular port named
- CFR – cost and freight to named port of destination
- CIP – carriage and insurance paid to named place of destination
- DAP – delivered, duty unpaid to named place of destination
- DDP – delivered, duty paid, to named place of destination

Typically, the F.O.B. value corresponds to the entered value for Customs purposes since it includes charges that the Federal Regulations treat as dutiable, but does not include charges that are non-dutiable. The F.O.B. value includes all charges incurred to place the goods on board the vessel for shipment to the U.S. This includes packing costs, inland freight from the factory to the port, and port loading charges.

When terms are CFR, the international transportation charges may be deducted from the invoice price, but only when these charges are substantiated. These freight charges can also be deducted from the CIP invoice value, along with any prepaid insurance charges. Substantiation for the freight charges can be obtained from the arrival notice, bill of lading, airway bill or any third party collecting the fees. If the charges are not listed on any of these documents, the importer can try to obtain them from the freight forwarder or carrier. These service providers will often refuse to provide this information to the customs broker in order to protect their cost.

and the amounts are higher or lower than those shown on the invoice, the substantiated or “actual” charges from the forwarder or carrier should be deducted rather than those listed on the invoice.

Foreign inland freight (charges from the factory to the port) can only be deducted from the invoice value if the ocean shipment is on a “through bill of lading”, and the amount is included in the charges from the forwarder or carrier. In these situations, the place of receipt listed on the bill of lading will be the location of the factory.

Any items listed as “free of charge” or “no charge” must still indicate a realistic value for Customs purposes, even if the merchandise is damaged or is being returned because it did not meet specifications. If the supplier resists providing a value on their invoice for “no-charge” merchandise, you might suggest that they include the language “for customs purposes only”.

Watch for possible additions to the invoice price. Things such as commissions, royalties, or tools, dies, molds, or materials, provided to the supplier for the manufacture of the imported articles, might need to be added to the invoice price as an “assist”.

Refer to the Title 19 Code of Federal Regulations, section 152 for full details about valuation. The CBP Informed Compliance Publication “What Every Member of the Trade Community Should Know About: Customs Value” is another highly recommended resource. It can be found at:

http://www.cbp.gov/linkhandler/cgov/trade/legal/informed_compliance_pubs/icp001r2.ctt/icp001r2.pdf