

Strategies for Saving on Customs Duties

By Tom Gould

When it comes to importing apparel, manufacturers have dozens of questions about saving money.

They ask things such as: "How can I legitimately lower the duty rate on my garments?" or "I think my competitors are paying a lower duty rate than I am. What do they know that I don't know?"

For many years, importers have been creatively designing or "engineering" their imported products in order to achieve a lower duty rate. With the complexity of classifications, apparel importers have many opportunities to make, often minor, modifications to their garments to change the classification and lower the duty rate for imported styles.

I thought I would share some common and some not so common ways apparel importers engineer their garments to lower their duty costs.

Several years ago I was referred to a new client - an importer of low-cost blouses, T-shirts, pullovers and other tops sold to several well-known mass retailers.

They wanted me to see if I could find opportunities for lowering their duties. One opportunity jumped out at me right away - a small percentage of their blouses and pullovers were made from 50 percent cotton and 50 percent polyester fabric.

The customs classification rules require garments made from 50 percent cotton and 50 percent polyester fabric to be classified as polyester fabric garments. Polyester pullovers carry a 32 percent duty rate while the same garment in cotton has a 16.5 percent duty rate.

I advised the company to change the content of the fabric to 55 percent cotton and 45 percent polyester, changing the "chief weight" to cotton and requiring the garments to be classified in the lower cotton provision. This resulted in a savings of 15.5 percent of the cost of their tops.

Cotton polo shirts may be classified as blouses (or shirts for men) with a 19.7 percent duty rate or as pullovers with a 16.5 percent duty rate. The difference is based on how tight the stitches are in the fabric. It is not based on the yarn's gauge.

Customs classifies those shirts and blouses made with a finer stitch (more stitches per centimeter) under the higher duty rate blouse provision while those made with a coarser stitch are classified as pullovers. Switching to a slightly coarser fabric can result in a 3.2 percent duty savings.

Some design features can change the classification of woven blouses from the higher duty rate blouse provision to a lower duty rate "similar to a blouse" provision.

Customs considers pockets below the waist or any type of tightening at the bottom to be "non-blouse"

features. Adding pockets to a blouse can allow an importer to take advantage of the lower duty rate. Adding elastic, a drawstring, rib knitting or other tightening element to the bottom of a blouse will similarly lower the duty rate on a blouse.

Jackets are designed for “warmth or protection from the elements,” according to customs. To make this determination they have a test. If a garment has three or more “jacket” features, then it is most likely classified as a jacket.

Some of the features that customs considers as being “jacket” features include heavy-weight shell fabric, lining or padding, larger coat-style fasteners, pockets below the waist and others.

If it has only one or two “jacket” features, it may be classified as “similar to a jacket,” resulting in a lower duty rate. For example a classic denim jacket that has two flap pockets on the chest and slash pockets below the waist typically has the requisite three “jacket” features, resulting in a duty rate of 8.9 percent while the same jacket without the slash pockets may not have the required three jacket features, resulting in a classification of “similar to a jacket” with an 8.1 percent duty rate.

Unisex garments are classified as “women’s” or “girls”, not “men’s” or “boys”. Some “women’s” and “girls” classifications have lower duty rates than the comparable men’s or boys’ provisions.

Water-resistant garments and garments made from plastic-coated fabrics (think faux leather) carry a lower duty rate. Garments made from silk, linen, hemp, ramie and some other vegetable-fiber fabrics normally result in duty savings.

These are just a few examples of the strategies apparel companies use to control the cost of importing goods. Understanding the rules of classification can result in thousands of dollars in savings.

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