Avalara

HS codes 101

Get classification right for cross-border trade

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> Meet your presenters



Craig Reed

GM, Cross Border

Avalara

- Craig leads the development and growth of Avalara's crossborder and global trade business.
- Craig came to Avalara through the acquisition of his company, TradeStream Technologies, where he was founder and CEO. At TradeStream, Craig was focused on building next-generation automated product classification and landed cost software systems for cross-border ecommerce.
- Prior to forming TradeStream, Craig was SVP, Global Ecommerce at Pitney Bowes, Inc.



Rob Hebrank

Product Solutions Specialist,

Cross Border

Avalara

- Rob is a seasoned logistics and international trade professional with over 15 years of experience in global commerce. He brings a strong background in B2C ecommerce and over a decade of carrier logistics expertise to his current role at Avalara, where he has spent more than four years supporting businesses from SMBs to large enterprises.
- Rob combines deep industry knowledge with a customerfocused approach to help companies navigate the complexities of cross-border trade and compliance.

Agenda

01	HS CODES 101
02	TRADE & TARIFF TRENDS
03	BUSINESS CHALLENGES
04	AN AUTOMATED SOLUTION FOR HS CODES
05	Q&A

CPE POLL QUESTION #1

How familiar are you with Harmonized System (HS) Codes used for classifying traded goods?

- Very familiar
 I use them regularly
- Somewhat familiar I've encountered them occasionally
- Not familiar I've heard of them but don't use them
- Never heard of HS Codes

> HS Codes 101

What is an HS Code?

Harmonized System (HS) codes are a system to classify globally traded products to enable the accurate calculation of customs duties



Each country has a unique HS code for the same product

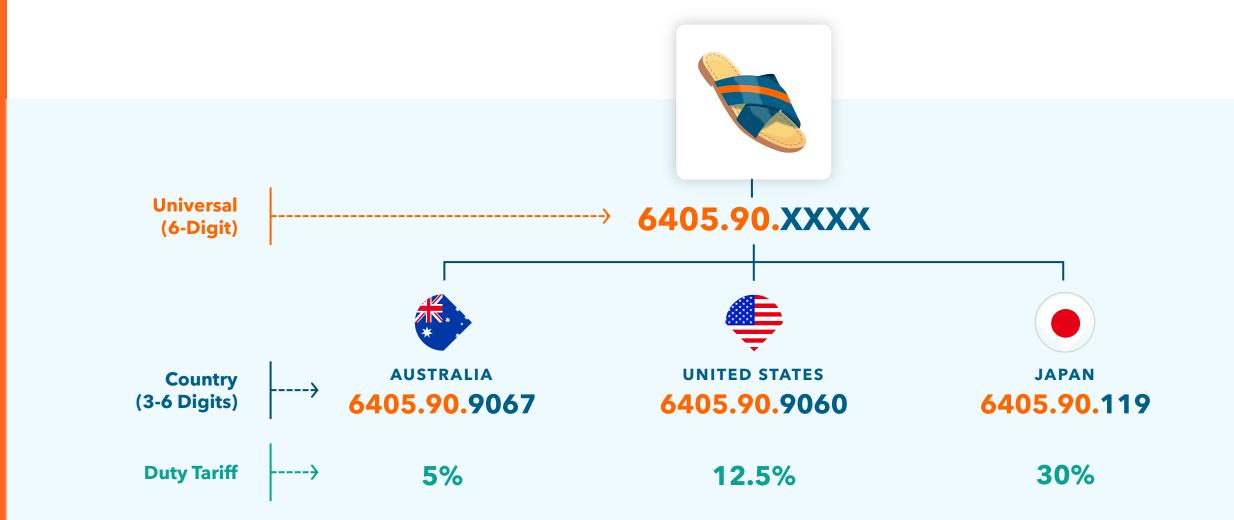
- The first 6 digits are universal - they are the same for all countries for a specific product.
- The last 4-6 digits are country-specific.

Mapping HS Codes is a pre-requisite to accurately calculate customs duties

HS codes tie directly to a country's tariff rates

HS codes are country-specific

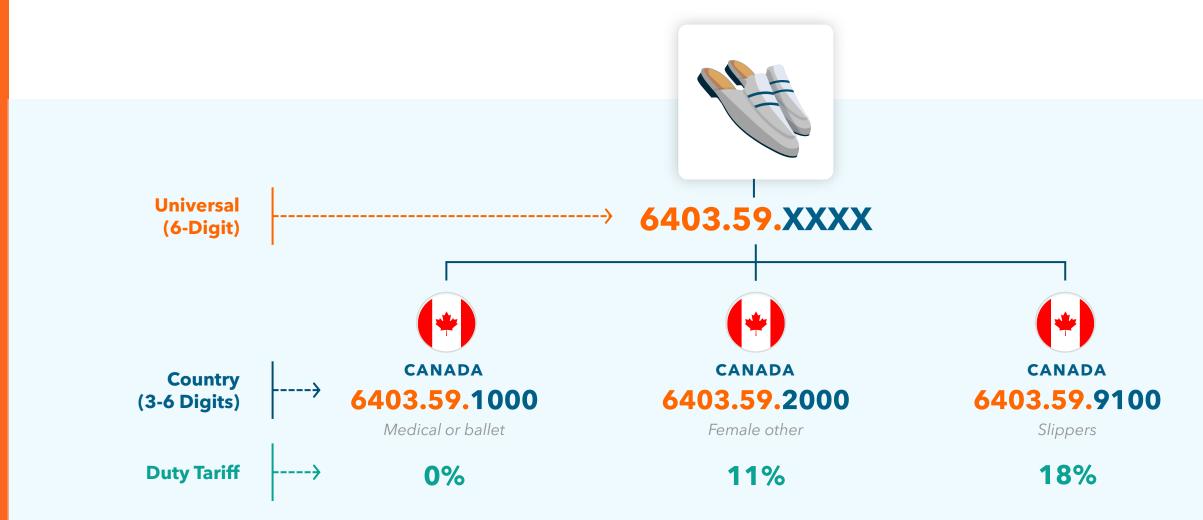
Unlike AvaTax tax codes, HS codes are not universal - they vary by country



Disclaimer: Tariff rates are accurate as of May 2024 and are for illustrative purposes only.

HS codes are country-specific

Varying duty into Canada



Disclaimer: Tariff rates are accurate as of May 2024 and are for illustrative purposes only.

Accuracy of HS code assignment is critical

Getting it wrong creates lots of downstream pain for you and your customers



Traditional HS code classification options are inefficient, and each delivers only a partial solution



CARRIERS



CUSTOMS BROKER, CONSULTANT, OR LAWYER



MANAGE IT YOURSELF



Inconsistent accuracy



Slow and manual



Expensive



No duty calculation engine

CPE POLL QUESTION #2

Are you using one HS code to ship the same item to multiple countries?



> Trade & Tariff Trends

Why the whiplash?

"Liberation Day" brought sweeping tariffs, retaliatory actions from major trade partners, and changes to de minimis exemptions

As promised, Trump rolled out sweeping tariffs on April 2 (now paused until July 9), in his first press conference since returning to the Oval Office.

Stated reasons for these tariffs include:

- Tariff deficits were deemed a "national emergency" by Trump
- To free the U.S. from dependence on foreign goods
- An attempt to stop the flow of fentanyl and illegal migrants into the U.S.

Most products traded between Canada, Mexico, and the U.S. are free from tariffs under USMCA — until now.

618,908
Trade-war tariff changes
(YTD in U.S., Canada,

30,000

Mexico, and China)

U.S. tax changes in all of 2024



Timeline of events - 2025

Tracking the changes as of June 3

for Canada and Mexico tariffs start • Tariffs increased to **20%** for Ontario's electricity export Chinese imports tariffs paused • The U.S. imposes tariffs • U.S. officials set an April • 25% on \$30B worth of U.S. • European Commission on three major trade 1 deadline to assess goods imported to Canada announced it will reinstate partners - Canada, trade partners' tariffs on tariffs on U.S. imports, • 10% and 15% on ~\$21B China, and Mexico U.S. goods and propose including boats, bourbon, worth of U.S. agricultural matching levies The U.S. also eliminates and motorcycles, starting products into China to take de minimis exemptions April 1 effect March 10 Feb. 3 -17 Mar. 2 Mar. 5 - 7 Mar. 13

Mar. 4

25% tariffs now implemented

Retaliatory tariffs are proposed by various

nations

Feb. 1

 Tariffs and de minimis changes are paused for at least 30 days, except for 10% on Chinese imports

Feb. 18

 Duty-free de minimis treatment, that was set to expire March 4, will remain available for Canada

and Mexico for now

• Tariffs on automobiles coming through USMCA paused

Mar. 12

• 25% steel and aluminum

- Announced on March 6th but effective March 7, 25% tariffs paused for anything under USMCA Agreement until April 2
- Ontario announced charging
 25% more for electricity to 1.5M
 Americans effective March 10

Mar. 20

• U.S. announces

25% tariff on

oil or gas from

April 2

countries that buy

Venezuela effective

Mar. 26

- Second phase of reciprocal tariffs include 25% on another ~\$30B on products imported from the U.S. to Canada
- U.S. announces
 25% tariff on all cars that are not made in the U.S. effective April 3

Timeline of events - 2025

Tracking the changes as of June 3

- 25% tariff on all foreign-made automobiles starting April 3
- U.S. will charge "a discounted reciprocal tariff" - approximately half of what countries charge the U.S., "including currency manipulation and trade barriers" starting April 9
- 10% baseline tariff of on all imports to the U.S. starting April 5
- End of duty-free de minimis treatment for low-value imports from China and Hong Kong starting May 2

• U.S. adds **50%** tariff to Chinese imports (104% cumulative), effective April 9

 China increases tariffs on U.S. imports to **125%**

• U.S. announces reciprocal tariffs exclude consumer electronics from most countries, except for China which retains a 20% tariff on electronics

USMCA-compliant auto parts are **exempt** from 25% tariffs effective May 3

U.S. and China agree to **reduce** tariffs to 30% and 10%, respectively, for 90 days beginning May 14th

Apr. 4

Apr. 9

May 2

May 8

Apr. 2

Apr. 7

- China adds **34%** tariffs starting April 10. This is in addition to the previously mentioned 10-15%
- Duty drawback will be available on recently announced reciprocal tariffs that take effect April 5 and 9

Apr. 11

- U.S. pauses tariffs for most countries for **90-days.** This does not include the **10%** base tariff, which is still in effect since April 5
- China raises tariffs on U.S. imports to **84%**
- As the **104%** tariffs take effect for China, U.S. announces another increase to 145% effective April 10

May 3

De minimis exemptions end for China and Hong Kong

May 12

U.S. and UK reach trade deal

Timeline of events - 2025

Tracking the changes as of June 3

- U.S. Court of International Trade ruled that the International Emergency Economic Powers Act (IEEPA) does not grant the President power to impose unlimited tariffs on goods from nearly every country
- The White House has **10 days** to halt affected tariffs (excluding Section 232 tariffs on automobiles and car parts, steel, or aluminum)

Section 301 tariff
 exclusions extended for
 164 products and 14 solar
 manufacturing equipment
 items through August 31

May 29

May 28

June 1

- U.S. Court of Appeals for the Federal Circuit temporarily stayed the injunction set by the Court of International Trade. The appeals court directed the plaintiffs and the appellees to respond to the United States motions for a stay no later than June 5.
- The U.S. may file a single, consolidated reply in support no later than June 9

We keep up with these changes so you don't have to

Visit our Overview and table of U.S. tariffs by country to stay up to date with newly announced U.S. tariffs by country, affected goods, and current enforcement status.

U.S. tariffs by country

Where are we now?

As of June 2nd, 5pm PST

China

- 30% on majority of Chinese imports - May 14
- Section 301 tariffs remain fully in effect, impacting many electronic and industrial products.
- Ended duty-free de minimis treatment for China and Hong Kong on May 2
- Section 301 tariff exclusions extended for 164 products and 14 solar manufacturing equipment items June 1 -August 31

Canada & Mexico (USMCA)

- **USMCA** compliant goods will continue to see a 0% tariff
- Non-USMCA compliant goods will see continue to see a 25% tariff
- Canada: Non-USMCA compliant energy and potash will continue to see a 10% tariff

General tariffs, EU, EMEA, APAC

- 25% on steel and aluminum effective March 12 - increasing to 50% on June 4
- 25% on automobiles effective April 3
- 25% on countries that buy oil or gas from Venezuela effective April 2
- 10% on all countries effective April 5
- Individualized reciprocal tariffs from Liberation Day were set to take effect April 9 and are now paused until July 9
- **UK: 10%** on British exports still in place, steel and aluminum tariffs will **be removed**, automobile tariffs on UK cars reduced to 10% for the first 100,000 vehicles annually
- **EU**: President Trump proposed a **50%** on all European Union goods, which are now paused until July 9

Reciprocal Tariffs

CHINA 10% on majority of U.S. imports -**May 14**

CANADA

- 25% tariffs on \$30 billion worth of U.S. goods effective March 4
- 25% tariffs on \$29.8 billion worth of U.S. goods effective March 13











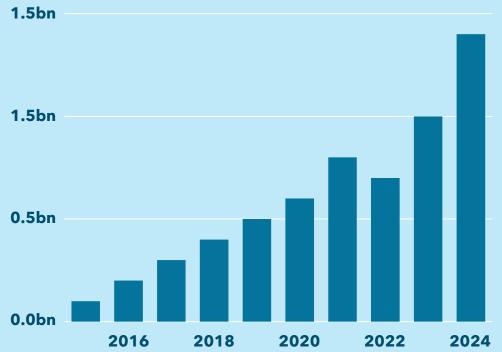
*Pre-February 2025 tariffs for China were averaging around 20.8%

23

End of de minimis exemptions

Effective May 2, 2025, for Peoples Republic of China and Hong Kong

VOLUME OF 'DE MINIMIS' SHIPMENTS TO THE US



Source: US Customs and Border Protection; National Bureau of Economic Research, c/o BBC

Duty-free de minimis treatment ends

for goods from China and Hong Kong under \$800

Non-postal shipments

under \$800 now subject to all applicable duties

Postal shipments

under \$800 face a flat duty: 54% of value or \$100/package

Carrier requirements

reporting shipments, proper tariff code, content information, maintain international bonds, and remit duties to CBP

CBP requirements

may change to formal entry for any package

Is selling internationally worth the effort?



Trends



Governments re-evaluating de minimis thresholds and duty rates.



Increased used of AI and ML to increase the number of declarations that can be monitored and the likelihood of catching compliance errors.



WCO strategic review of the HS - create new codes for product evolution, sunset product codes, and enabling more frequent updates.



Prevalence of Electronic Single Windows, placing added importance on proper HS classification for PGA regulatory compliance.



Things to consider

You can outsource process, but you cannot outsource responsibility

Red Flags for Government Auditors*

- ⚠ The company has insufficiently documented, poorly defined, or no internal control for accurately reporting classifications to Customs.
- ⚠ The company does not monitor or interact with the broker on classification issues.
- ⚠ The company relies on one employee to handle classification issues, and there are poor or no management checks or balances over this employee.
- ▲ Company import staff lacks knowledge of classification requirements.
- ⚠ The company has a high turnover of people in key positions.



"As the importer or exporter of record, you are legally responsible for correctly classifying your goods. This applies even if you employ an agent to handle your customs entries on your behalf."

UK Customs Code

Implementing Regulation, 2454/93 Article 199

^{*} Source: USCB – Focused Assessment Guidelines. Classification Pre-Assessment Survey

CPE POLL QUESTION #3

Are you planning to adjust your supply chain due to impending global trade changes (duties, tariffs, regulation changes) in any of the following ways?

- A Diversifying suppliers and manufacturers
- B Switching to local suppliers and manufacturers
- Investing in new trade technology or tools for supply chain management and trade compliance
- Rethinking distribution strategies

 (e.g., new fulfillment center locations, carriers, shipping routes)
- E Other Please specify
- I don't know yet

> Business Challenges associated with HS codes

Business challenge

HS Classification is difficult and error-prone



COMMERCIAL **DESCRIPTIONS VS. HS TERMINOLOGY**

"Baby food" = "Homogenized composite food preparations"



GRI'S, LEGAL (SECTION, **CHAPTER NOTES)**

"Fabric, 50% cotton,

50% flax" (GRI 3(c))

"Tomato Juice"

(Chapter 20,

Note 4)



COMPLEX ITEMS

Sets/Kits, Parts,



KNOWLEDGE MANAGEMENT



RELIANCE ON INEFFECTIVE/ **INAPPROPRIATE TOOLS**

Composite Goods

Scarcity of specialized domain expertise

Costs associated with Turnover & Training

Reliance on historic employee knowledge

Use of spreadsheets for **HS** repository

Business challenge

Declarants need to have explicit knowledge of where a particular commodity is located (structure) and/or how it is described (meaning) in the HS nomenclature to easily and accurately classify it.



Structural challenges

Juices are not considered beverages (Chapter 22), but as "preparations of vegetables, fruit, nuts or other parts of plants" (Chapter 20);

Car seats are not parts of a cars (Chapter 87), but articles of furniture (Chapter 94)

Electric toothbrushes are not actually toothbrushes (Chapter 96), but "Electro-mechanical domestic appliances, with self-contained electric motor, other than vacuum cleaners of heading 85.08. (Chapter 85).



Semantic challenges

COMPUTER	Automatic data processing machine
BABY FOOD	Homogenized composite food preparations
WHEELCHAIR	Carriage for disabled persons
BLOW DRYER	Electrothermic hair dressing apparatus
GPS DEVICE	Radio navigational aid apparatus

> An Automated Solution for HS Codes

Avalara's HS Code Classification Offerings

Different solutions for different business needs





AutomatedTariff Code Classification

Self-ServeTariff Code Classification

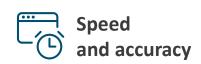
Managed
Tariff Code Classification

Managed
Tariff Code Classification
Premium

What is most important to you when considering an HS code classification service?



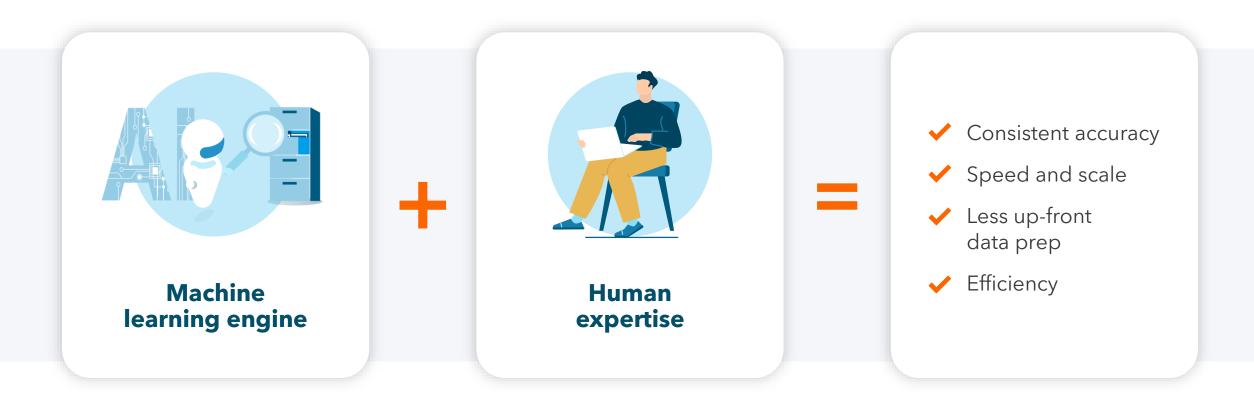
Speed





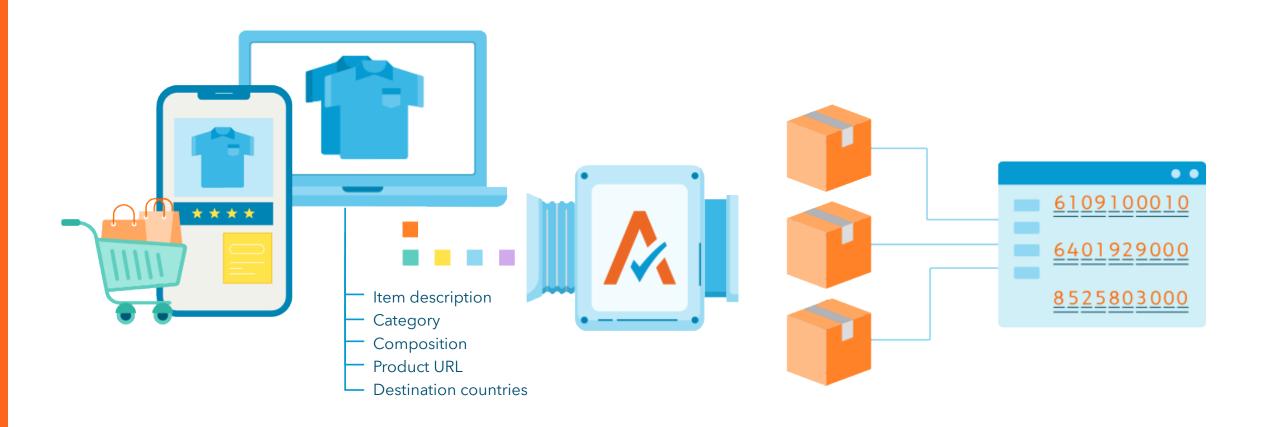
Uniquely equipped to scale the "art and science" of HS classification

For many consumer products, a blend of automation and human expertise is needed to consistently determine the proper HS code



Avalara efficiently assigns HS codes to your goods

Reduce time required to manually assign codes for each country

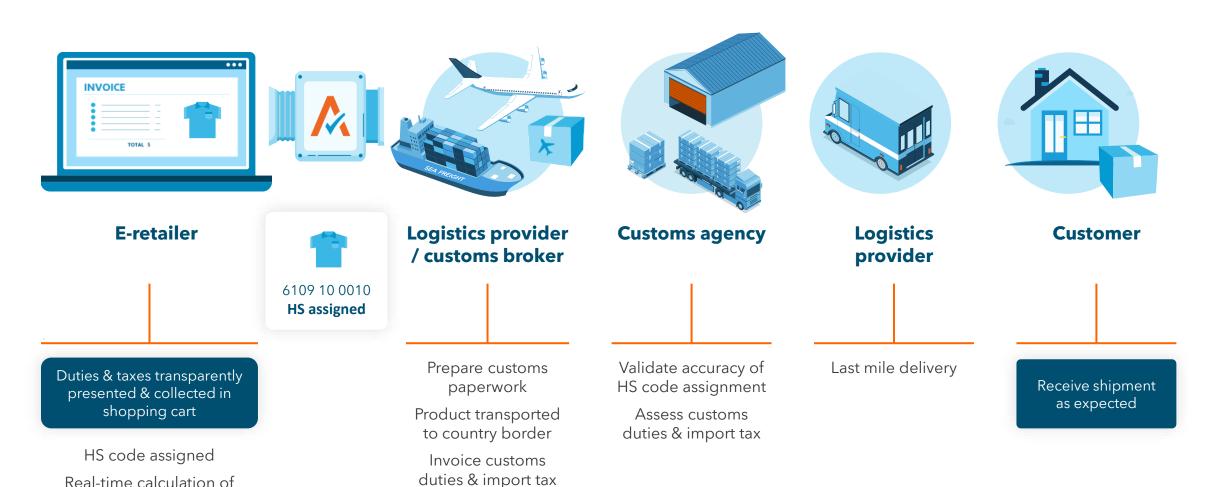


Confidently ship DDP with your carrier

How shoppers expect to buy online

Real-time calculation of

duties & import tax



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back to e-retailer

> Go global with Avalara



Go global with Avalara

A one-stop shop for your end-to-end international compliance needs



AvaTax Cross-Border

Simplify your compliance process with a flexible, unified platform to help calculate or estimate customs duties upfront with greater accuracy.



Tariff Code Classification

Automate the assignment of Harmonized System (HS) codes with a solution that scales to meet global needs, including Al-based and self-serve capabilities in addition to managed classification that combines automated services and human expertise.

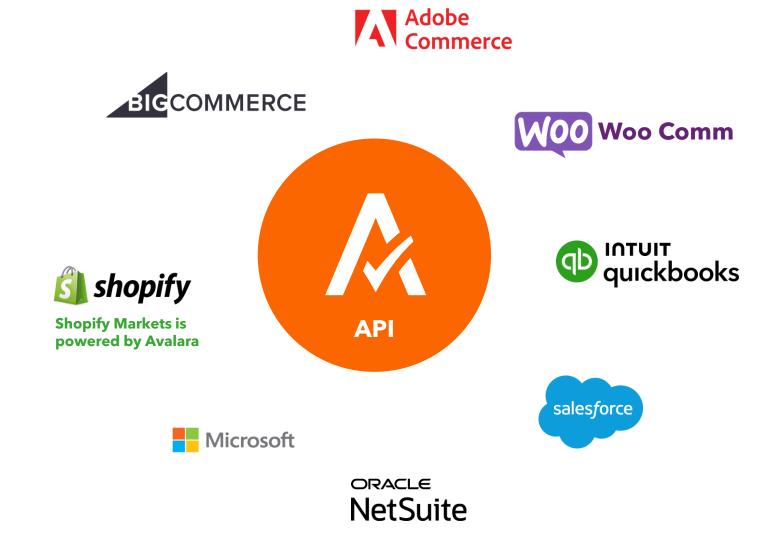


Trade Restrictions Management

Learn about applicable government restrictions on selling goods across borders prior to shipment to alleviate products being denied at the border.

Integrate seamlessly with many of the business applications you already use, or quickly and easily build one with our API.

More pre-built solutions coming soon



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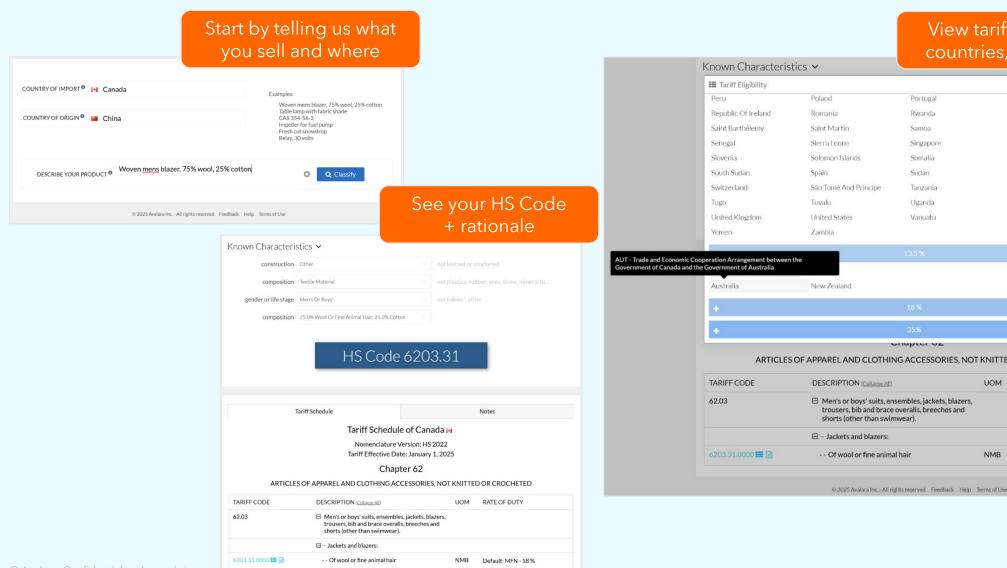
> Demo

Demo

Avalara Self-Serve Tariff Code Classification

Taming tariff troubles with automated HS classification

Avalara Self-Serve Tariff Code Classification



14-day free trial

Try Self-Serve Tariff Code Classification for yourself!

Access Self-Serve Tariff Code Classification 2 weeks starting the Monday after you sign up.

The offer includes:

- Three destinations U.S., Canada, EU
- Unlimited Country of Origin selections
- Up to 30 unique HS and Tariff code classifications

Explore how your specific product catalog could benefit from more accurate classification and trade compliance intel.



By signing up for this free trial you will receive communication from Avalara with your 14-day free trial login credentials. For registrations prior to Thursday at 4 p.m. ET, your free trial will start the following Monday. For registrations between Thursday at 4 p.m. ET and Monday, your trial will begin on the second Monday after registration and last for 14 days. Destination countries are limited to the U.S., Canada, and the EU countries. Country of Origin selections are unlimited. Number of classifications is limited to 30. Free trial offering is limited; terms and conditions apply.

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POLL QUESTION #4

Would you like start a 14-day free trial of Avalara Self-Serve Tariff Code Classification?



By signing up here you will receive communication from Avalara with your 14-day free trial login credentials. For registrations prior to Thursday at 4 p.m. ET, your free trial will start the following Monday. For registrations between Thursday at 4 p.m. ET and Monday, your trial will begin on the second Monday after registration and last for 14 days. Destination countries are limited to the U.S., Canada, and the EU countries. Country of Origin selections are unlimited. Number of classifications is limited to 30. Free trial offering is limited; terms and conditions apply.

CPE POLL QUESTION #5

Would you like to talk with an expert about your global trade compliance?





Q&A

Upcoming webinars

avalara.com/webinars







1 DAY

COMMUNITY

A value-packed day that gives you the flexibility to choose what works best for you 2 TICKET OPTIONS

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