KPMG

How the retail industry can manage trade disruption from COVID-19

Reducing import costs in a turbulent time to improve cash flow
Trade and Customs Services

July 30, 2020

COVID-19 is having an unprecedented impact on the retail industry, dramatically reducing business, forcing closures of stores, and presenting new challenges for managing inventory carrying costs (e.g. warehousing of goods as a result of reduced customer demand).

Despite the challenges facing the retail industry, opportunities exist to mitigate the impact of COVID-19, decrease costs, increase cash flow, and enhance overall savings.

Outlined below are key trade strategies that retailers can consider:

Duty Drawback

— Allows for a refund of up to 99 percent of Section 301 trade remedy tariffs for goods imported into the United States and subsequently exported.

— Timing: Applies to duties paid on entries filed within the past five years.

COVID-19 Considerations

— Companies are combating inventory and cash flow challenges by pursuing duty refunds for merchandise that is exported outside of the U.S. or destroyed under customs supervision.

— Retailers are recovering duty via drawback in the following scenarios:

- Returned merchandise to international suppliers;
- Exports to international charities;
- Exports to international customers or business partners; and
- Destroyed excess inventory.

How KPMG can help:

— KPMG can work with companies to help expedite drawback applications and utilize automation to expedite the filing process for more timely refunds.

De Minimis Shipments—"Section 321" Duty-free Entry

Under certain conditions, merchandise valued at less than $800 (imported by one person per day) may be exempted from duties and taxes.

COVID-19 Considerations

— Social distancing and closure of "brick and mortar" stores are leading to surges in e-commerce transactions, creating favorable conditions for the use of Section 321 where transactions qualify.

How KPMG can help:

— KPMG can help companies assess, implement, and operate distribution strategies that utilize the Section 321 duty-free treatment.

Foreign Trade Zones (FTZ)

— A secure area (e.g., warehouse) under CBP supervision that is generally considered outside of the U.S. customs territory.

— FTZs allow for practical cash flow, as well as transactional and strategic trade savings benefits.

COVID-19 Considerations

— Reductions in customer sales and retail replenishment may cause inventory overflows, creating a need to maximize efficiencies with warehousing space and supply chain timing.

— FTZ programs help increase cash flows through duty deferrals.

How KPMG can help:

— KPMG can help increase the value of an FTZ, including increasing active FTZ space, repurposing space for other activities (i.e., domestic manufacturing), and re-routing more drop / store shipments to FTZs to gain from duty deferral, among other opportunities.

— KPMG can assist with long term strategies for those who do not currently utilize an FTZ to promote flexibility in the future.

Section 301 Tariff Exclusions

— The Office of the U.S. Trade Representative (USTR) has granted exclusions on punitive tariffs. Companies can leverage granted Section 301 exclusions to tackle this increased tariff burden.

COVID-19 Considerations

— Companies requiring increased cash flow may leverage granted exclusions to obtain customs duty refunds and reduce future duty spend. Some exclusions may be applicable even if the exclusion was granted to another company.

— Companies pursuing multiple savings opportunities must determine how exclusions may intersect with other areas of customs, such as drawback and value reconciliation.

How KPMG can help:

— KPMG leverages its proprietary automated exclusion management tool to efficiently identify and track refund opportunities.

— KPMG utilizes its experience and technical understanding to help expedite refund claims.

Miscellaneous Tariff Bill (MTB)

— The MTB is a legislative initiative that provides reductions or suspensions of duties on certain U.S. imports.

— Retailers realizing benefits of MTBs are still subject to punitive tariffs.

COVID-19 Considerations

— The impact of COVID-19 is being felt across all industries and areas of U.S. government policy considerations, and the MTB opportunities should be considered in a broader cash recovery effort.

How KPMG can help:

— KPMG leverages its experience with supporting retail companies in management of MTB-related opportunities for duty recovery.

— KPMG can leverage its automated tools to efficiently identify and track refund opportunities.

First Sale for Export Valuation (First Sale)

— If the proper structure exists, the First Sale for Export valuation methodology allows importers to lawfully reduce their duty spend by paying duties on a prior sale, thereby achieving a lower landed cost.

COVID-19 Considerations

— A long-standing strategy for cash savings, retailers may be able to lawfully use the first sale value as the dutiable value of their imports by claiming the manufacturer's (or prior seller's) price at time of entry.

How KPMG can help:

— KPMG can help companies assess supply chains for these opportunities and evaluate the suppliers against first sale valuation principles so that companies can take advantage of this lower duty spend.

— For companies who may already maintain a First Sale program, it may be worth reevaluating future supplier volumes with sourcing departments to adjust to supply chain changes due to COVID-19.

Customs Valuation

Merchandise imported into the United States must be appraised using a sequential hierarchy of alternative valuation methods. For most products, customs values form the basis upon which duties are assessed.

COVID-19 Considerations

— Companies may be seeking to lower customs values of imported merchandise, either through price renegotiations with unrelated parties, or through transfer pricing adjustments with related parties.

— Decreases to customs values may result in lower duty exposure or potential duty refunds if certain criteria are met.

Section 321 Considerations

— The Section 321 de minimis exception of $800 is coming under increased scrutiny. Policy-makers are concerned about the level of counterfeit products entering the U.S. market under the de minimis exception. Additionally, there is a perception that China disproportionately benefits from Section 321. Finally, the $800 threshold is significantly higher than other countries' levels - which is viewed as putting the U.S. at a disadvantage.

— Although it is unclear if modifications will be made, importers should consider Section 321 as part of an overall duty savings program and not be solely reliant on it. Maximizing flexibility will help ensure that savings are protected if changes are made to this or any other program.

How KPMG can help:

— KPMG can help companies save on customs duties through various approaches, including identifying and removing certain non-dutiable costs from the value of imported merchandise.

— KPMG can assist companies with joining the CBP Reconciliation program, and accelerate the reporting of adjustments to customs values and obtaining faster duty refunds. KPMG can assist companies with determining whether reduced intercompany prices (i.e., transfer prices) meet the necessary customs arm's length requirements for obtaining a duty refund.

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Contact us

The KPMG Trade and Customs services group is able to assist your company in formulating a mitigation strategy to navigate this exceptionally challenging time. To learn more, contact your local tax advisor or any of the professionals listed below.

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Trade and Customs Services

Insights in Trade and Customs

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