

Understanding Duty Drawback

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What is Duty Drawback?

Introduced in 1789, duty drawback is an export incentive program designed to promote U.S. innovation and manufacturing around the world. Even after 229 years and multiple revisions, the program is still actively in operation.

Duty drawback involves the reimbursement of specific duties, taxes, and fees collected against the importation of goods once the merchandise is exported or destroyed. Serving as an export incentive, the program enables eligible exporters to receive customs refunds, with the potential for a 99% reimbursement of duties under specific conditions.



Types of Duty Drawback

Customs provides three major types of drawback returns:

Unused Merchandise Drawback:

This return applies when companies import a good and then export the same good without changing it. This applies if a company, for example, imports bicycles and then exports the bicycles to South America. In this case, the company has the opportunity to apply for and receive a refund for the duties paid during the importation process when these bicycles are exported.

Manufacturing Drawback:

When a company imports an item, then manufactures it into a different item, it can apply for drawback. Consider a scenario where a company imports raw materials or components to manufacture specialized electronic equipment. After the electronic equipment is produced and exported, the company can apply for a refund of the duty paid against the imported raw material or components used in production for those exported finished goods.

Rejected Merchandise Drawback:

Companies can request drawback when merchandise does not conform to samples or specifications, ships to them without consent, or is defective at the time of import. For instance, if the company receives a defective item, they can apply for drawback upon exportation or destruction of the defective materials.

Changes to the Duty Drawback Law

Evolving significantly over the years, the duty drawback program underwent a major transformation with the enactment of the Trade Facilitation and Trade Enforcement Act of 2015 (TFTEA). This legislative update brought about substantial changes to U.S. duty drawback rules, elevating the legal framework and broadening opportunities for refunds on imported goods subsequently exported. In 2018, a new drawback statute attempted to simplify the claim process, making it electronic to decrease program costs. As of February 24, 2019, the program required claimants to file all drawback claims, according to TFTEA.

Here is a list of major changes made:

- Match by 8-digit HTS, instead of product code
- Timeframe for claims will increase to five years from Date of Import
- Certificates of Delivery and Manufacture will no longer be required
- Record retention for three years after liquidation, instead of three years after payment
- USMCA Restrictions
- Electronic claims (ACE) will reduce paper usage
- Additional Changes
 - » New rules for calculating drawback amount
 - » Track value for exported items and components used in manufacture
 - » Drawback for recovered materials
 - » Proof of export – normal business records
 - » Electronic forms of proof of export allowed
 - » Importer/Claimant – Joint and several liability
 - » Changes to regulations
- Regulation Changes
 - » 'Lesser of' instructions and applications
 - ◇ Export Value
 - ◇ Destroyed merchandise
 - ◇ Substituted components in manufacture
 - Taxes and fees recoverable
 - Proof of exportation requirements update



Does Your Company Qualify for a Drawback Refund?

Possibly. Do you import and export goods in the U.S.? Have you returned or destroyed imported merchandise? To ascertain your eligibility for duty drawback, numerous additional questions must be addressed. What has been mentioned is merely the beginning and requires someone with in-depth knowledge to guide the process of considering drawback eligibility. Companies that understand the program and partner with a reputable drawback broker can successfully navigate the nuances and add dollars to their bottom line.



Calculate Your Potential Duty Drawback

Use our estimation calculator



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