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# A Shipper's Guide to Duty Drawback

**GREATER SAVINGS IN 1/2 THE TIME**

# Executive Overview

Every year, \$3-5 billion of duties, taxes, and fees eligible for duty drawback go unclaimed.

This unclaimed amount has doubled in the past three years due to the imposition of the Section 301 Tariffs (China). This has dramatically changed the calculus for importers and exporters; thus, they should explore claiming duty drawback. Before the 301 duties were imposed in 2018, the argument for drawback was less compelling given the complexity and labor-intensive nature of the claim. However, post-2018 the duty drawback is a great way to legally reclaim potentially significant import duty-related costs.

To make duty drawback more accessible to importers and exporters, the Trade Facilitation and Trade Enforcement Act of 2015 (TFTEA) updated the requirements for filing duty drawback and simplified the process. However, even with that simplification of the duty drawback process, preparing a drawback claim requires knowledge of regulations, an understanding of the drawback process, an appreciation of the effort required to successfully create and support a claim, and recognition of the claim value.

In this ebook, we present why importers and exporters should seriously explore whether duty drawback is feasible, and if the potential recovery warrants their efforts. We will explain how new technology radically simplifies the way duty drawback claims are prepared for filing with a drawback broker, and lowers the work effort and cost to the filer.

To evaluate the value of duty drawback to your organization, it is first important to ask yourself the following questions:

- 1 Are you importing from China?
- 2 Are you missing an opportunity for the incredible returns of duty drawback?
- 3 Do you believe the internal effort necessary to support a duty drawback claim is too costly?
- 4 As a duty drawback filer, are you frustrated and overworked by the effort to prepare the claim?
- 5 Is your company not receiving the maximum amount from customs for your duty drawback claims?
- 6 Is your broker taking too big a slice of your drawback claim?

If you answered “Yes” to any of these questions, this ebook is for you.



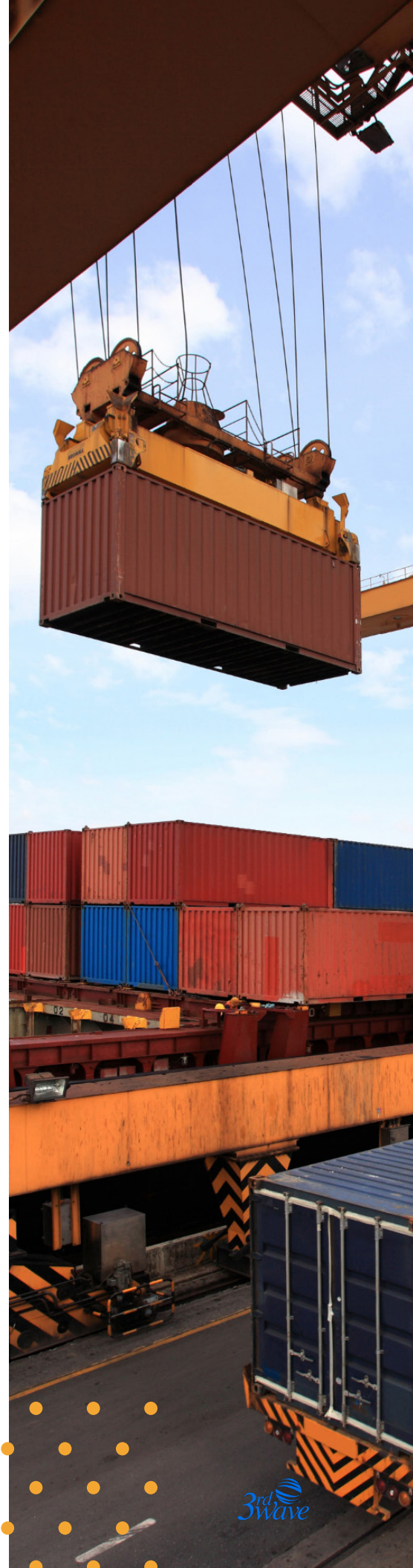


# Is My Company Eligible for Duty Drawback?

Any individual or company that is associated with the importing and subsequent exporting or destruction of items is eligible for duty drawback. Most often, the duty drawback claim is associated with the exporter of imported items; however, in many instances, the benefits accrue to an importer in concert with an independent exporter.

Importers who do not re-export their imported products, in either an unused state or as part of a manufactured product, often believe that they are not eligible. Likewise, exporters who do not import products often think that they are not eligible for a drawback on the products or components they export.

However, this is not the case. In fact, a huge opportunity exists for both importers and exporters to recover duties, taxes, and fees that they are currently overlooking.



In order to understand whether your company is eligible, it is necessary to understand the mechanics of the duty drawback process. There are five different types of drawback claims.

## 1 **Unused Direct Identification Drawback (J1).**

Imported products that have not been sold or used are eligible for a duty drawback. The drawback claim is for 99% of duties, taxes, and fees upon prior approval by CBP and proof of export or destruction.

## 2 **Substitution Unused Merchandise Drawback (J2).**

Merchandise that is exported or destroyed, and which is classified under the same eight-digit HTS subheading as the imported product, is eligible for a 99% drawback of duties, taxes, and fees if the imported product was not classified as “other.” The value of the drawback claim is based on the value of the imported or substituted product (i.e., whichever is less).

## 3 **Direct Identification Manufacturing Drawback.**

Under this drawback scenario, the importer is entitled to a refund of 99% of the duties, taxes, and fees applicable to the raw materials or components used in the product being exported or destroyed.

## 4 Substitution Manufacturing Drawback.

In this case, the imported products or components are not directly used in the production of the exported product. A drawback of 99% can be claimed if products or components of the “same kind” as imported products or components are used in the manufacturing of the exported product.

## 5 Rejected Merchandise Drawback.

If imported product is rejected or destroyed by the importer or consignee, for whatever reason, a drawback of 99% of the duties, taxes, and fees can be claimed with proof of export or destruction. In order to claim this drawback type, approval by CBP must be obtained in advance of the product export or destruction.



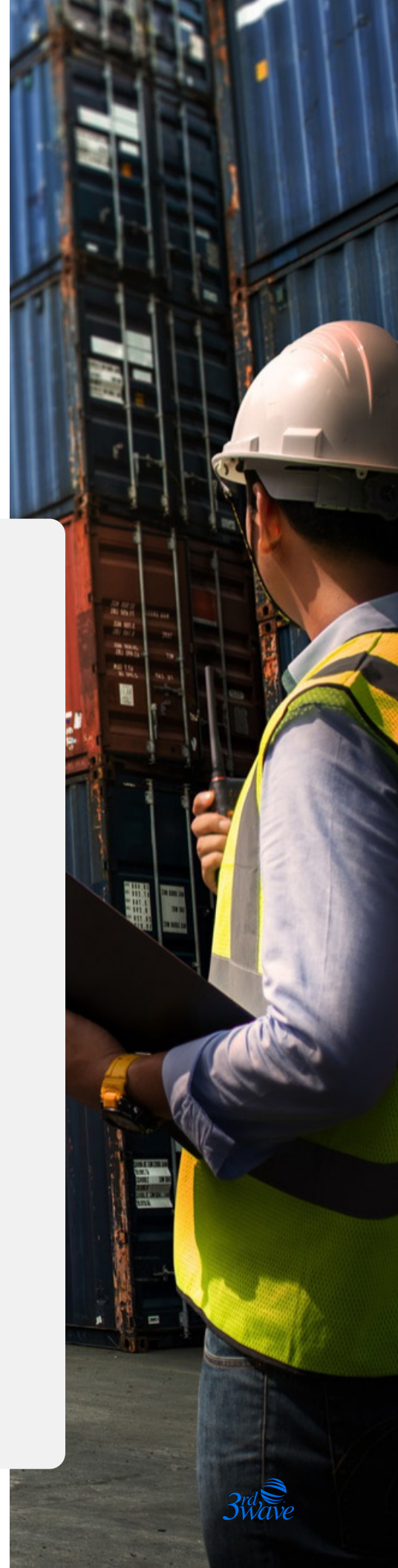


# Is the Duty Drawback Process Difficult?

The answer is a straightforward no...and yes!

Conceptually, the duty drawback process is relatively straightforward. Under TFTEA, preparing a drawback requires:

- Capturing the product description, quantity, duties, taxes, and fees paid on the customs import entry (source: customs broker)
- Matching it to the item quantity declared on the export filing detail (source: freight forwarder)
- Calculating the quantity of the product eligible for drawback
- Calculating the value of duties, taxes, and fees available for the drawback claim
- Filing your claim



In practice, the drawback process is labor-intensive. Preparing a claim requires pulling source information from the customs import entry data (ACE), customs export data (AES), your inventory control system (ERP), your customs broker(s) (import), and freight forwarder(s) (export). Once the information is accumulated, it must be validated to ensure accuracy, consistency, and adherence to the rules. Moreover, it requires access to supporting documents for both the import and export transactions in the event that customs requires supporting detail.

Ultimately, what dissuades companies from filing a drawback claim is that the internal processes are lacking and the effort of collecting the data and supporting documentation is intense and frustrating, as you will read below.

# What Does It Take to File a Duty Drawback Claim?

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The duty drawback preparation process has been daunting. Additionally, it is labor-intensive. The filing process is procedural and has specific rules. For that reason, almost every claimant uses a duty drawback broker.





From the drawback claimant's perspective, there are six issues that must be addressed:

- 1 Basic knowledge of the duty drawback process and the options under which a claim can be filed,
- 2 Access to the necessary import/export data and documentation,
- 3 Access to the inventory activity (i.e., inbound/shipment) of the raw materials, components, or products being claimed,
- 4 Preparation of the claim,
- 5 Submission of the claim data and supporting information to the drawback broker, and
- 6 Access to an ABI filing solution to file the claim with CBP

It is the responsibility of the claimant to provide access to the import/export data and documentation, as required, to file and support a claim. The operative words in the preceding sentence are “provide access to.” Much of the supporting information is maintained in ACE based on the import broker or export freight forwarder filings, and the drawback broker needs the importer's/exporter's permission to access the claimant's data.

Typically, drawback claimants will hire a duty drawback broker to prepare and file the claim. This makes the process much easier and more accessible. For their services, the drawback broker will charge 4-35% to prepare and file a claim, depending on the size and complexity of the claim. This may appear to be a steep price; however, it is not unreasonable given the labor-intensive nature of the duty drawback claims process.

**3rdwave:**

# A Radical Solution for Duty Drawback Claim



As previously mentioned, most eligible companies have ignored the possibility of duty drawback because it is just too difficult and time-consuming to execute—not to mention the time required to compile and validate the necessary supporting information.

So what makes 3rdwave a radical solution for duty drawback? It is the only solution that simplifies and automates the uploading of all supporting import and export data from ACE, your import brokers, your export brokers, and your inventory control system. It automatically synthesizes all of this information and intelligently verifies it. In addition, users are automatically alerted to any unvalidated information that requires remediation. Once the information is validated, 3rdwave automatically prepares the claim files, which are then delivered to the customs drawback broker in a format that supports an ABI Drawback file.



**3rdwave:**

# Making Duty Drawback Accessible



3rdwave automates the preparation of the drawback claim, thus making the recovery of duties, taxes, and fees a much simpler and more cost-effective task. All of your import and/or export data is aggregated and validated against ACE, your inventory system, and your customs broker data to ensure that only valid items are claimed. The result is a drawback file that can be automatically uploaded to your broker or filed in ACE. Either way, you will benefit.

Imagine a solution that automates the collection of drawback information, validates it, and prepares the drawback file for your broker. Imagine an automated solution that eliminates most of the labor involved in the preparation of the drawback file. Imagine storing all of your supporting drawback documents in a central, easy-to-access database. Now, imagine your company getting a relatively large check from the government for money that they never expected to see.



All of this is possible with 3rdwave Duty Drawback. Here is the 3rdwave Duty Drawback solution:



## Eliminates Complexity

Imported products that have not been sold or used are eligible for a duty drawback. The drawback claim is for 99% of duties, taxes, and fees upon prior approval by CBP and proof of export or destruction.

## Ensures Accuracy

Whether it is a complex multi-tiered manufacturing BOM or a simple reexported/unused product, 3rdwave ensures that all data related to entry, export, inventory utilization, and ACE is reconciled, validated, and within constraints—without any need for worrying.



## Increases Recovery

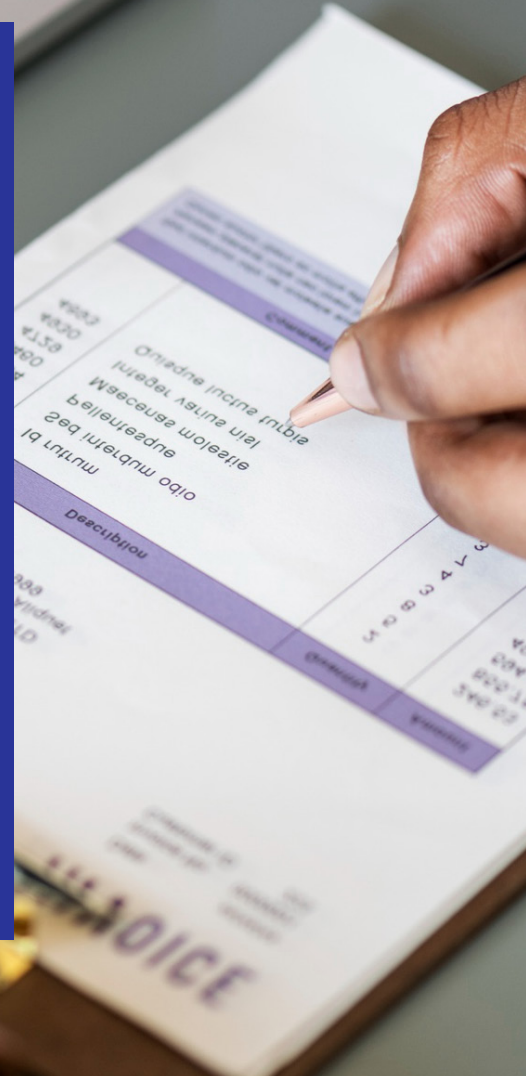
Increase your drawback filings and reduce your filing fees through 3rdwave's automation. This provides you with the opportunity to recover the duties, taxes, and fees you paid when importing the goods. With 3rdwave automation, no drawback claim is too small.



# What's the Deal?

It's relatively low risk.

Additionally, there is very little IT required; we do almost all of the work importing the information, validating it, and preparing it for filing. All we need is your permission (and a little support) to access spreadsheet files from your inventory system, your broker, and ACE.



## Total Flexibility for Filing

Name your drawback broker and we will send them the prepared file. We produce incredible results when filing for duty drawback.



## First-Time Drawback Filer:

- 1 Three years of duty drawback worth up to 99% of the import duties, taxes, and fees (and a lesser filing cost)
- 2 Ongoing duty drawback capture on an annual, semi-annual, or quarterly basis



## Current Filers:



Much less work in preparing your files



Opportunity of filing more frequently, facilitating cash flow improvement



Opportunity to go after smaller duty drawback claims



Potential to reduce drawback filing fees



# Conclusion

There is a significant amount of duties, fees, and taxes available for duty drawback that go unclaimed each year from CBP. This money is available for any importer or exporter to claim if they meet the drawback criteria.

The greatest impediment for an organization claiming duty drawback is that the processes are poorly understood, and claim preparation is very labor-intensive; therefore, it is not within reach for most import/export groups. Add to these internal challenges the need to work with a specialized broker who takes a significant share of the drawback, and it just hasn't been worth it.

A game-changing duty drawback technology, 3rdwave takes almost all of the work out of the duty drawback claim process. Within just a few hours of work, any organization—of almost any size—can establish the capability to access their duty drawback. In fact, 3rdwave is so confident in its automation approach that it will provide the solution with no upfront cost and work exclusively on results.

