

Advanced Drawback Accounting Methods & Recordkeeping

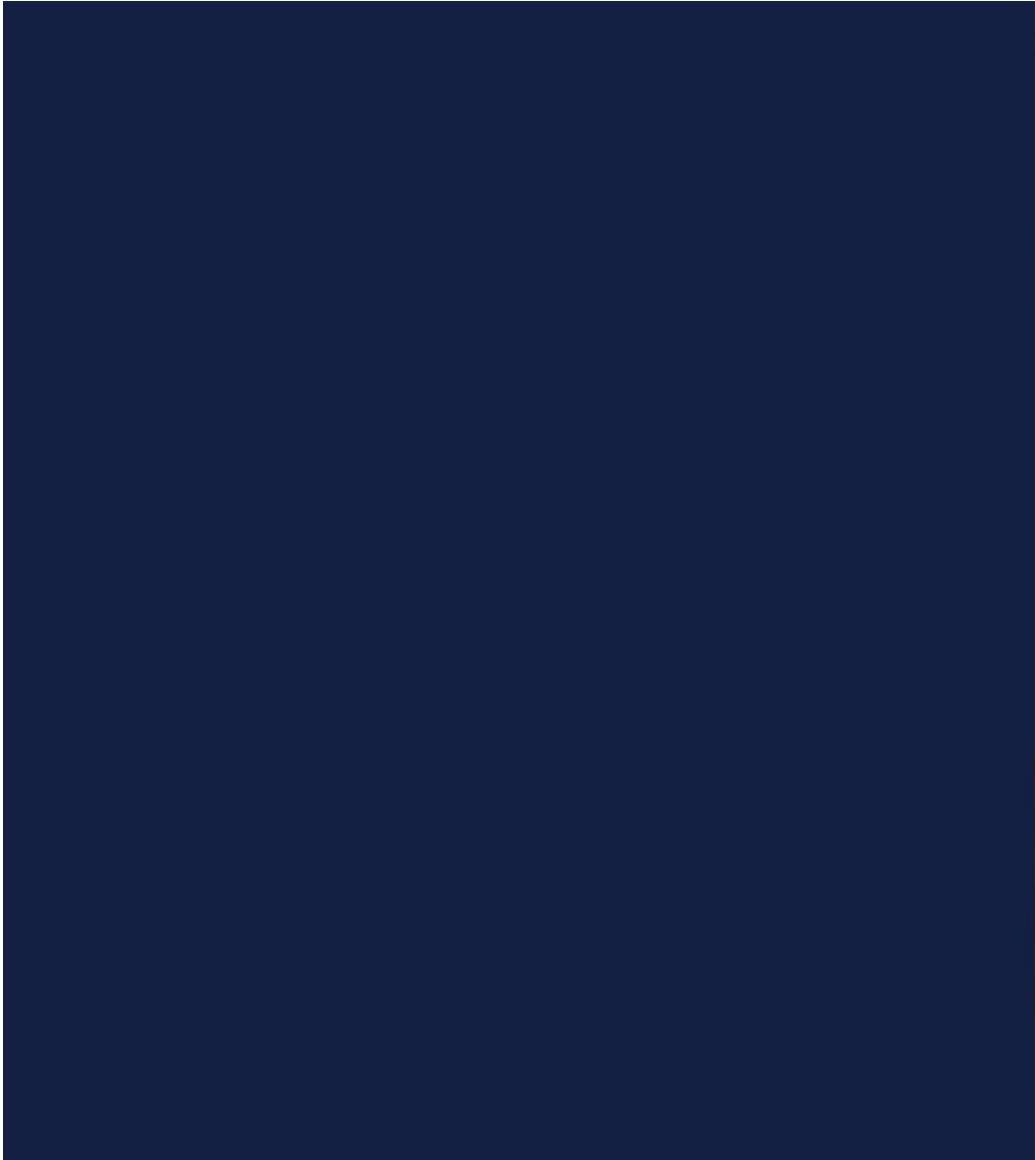


presented by

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Alliance Drawback Services



Agenda

What You Will Learn Today

- Brief Duty Drawback 101.
- Applicability of Drawback Accounting Methods.
- Drawback Record Retention.
- Questions & Answers.



What Is Duty Drawback?

Founded in 1789, Modernized with TFTEA Regime

Duty Drawback is a refund of 99% of duties, fees, and taxes paid on imported material or merchandise that is subsequently exported, returned, or destroyed.

- Retroactive 5 years.
- Eligible: Reciprocal & 301 tariffs. Some 232 eligible.
- Non-Eligible: Most 232 & Fentanyl tariffs, and anti-dumping.



Unused Merchandise Drawback

19 USC 1313(j)(1) and 1313(j)(2)

- Refund of duties on exports in “same condition.”
- Direct ID requires lot or serial matching or a drawback accounting method.
- Drawback accounting methods are a “fiction” unlike GAAP.

Unused Merchandise Direct ID (Same Part, SKU, Material)



Duty-Paid Import



Qualifying Export

Unused Merchandise Substitution (Same 8 or 10-Digit HTSUS)



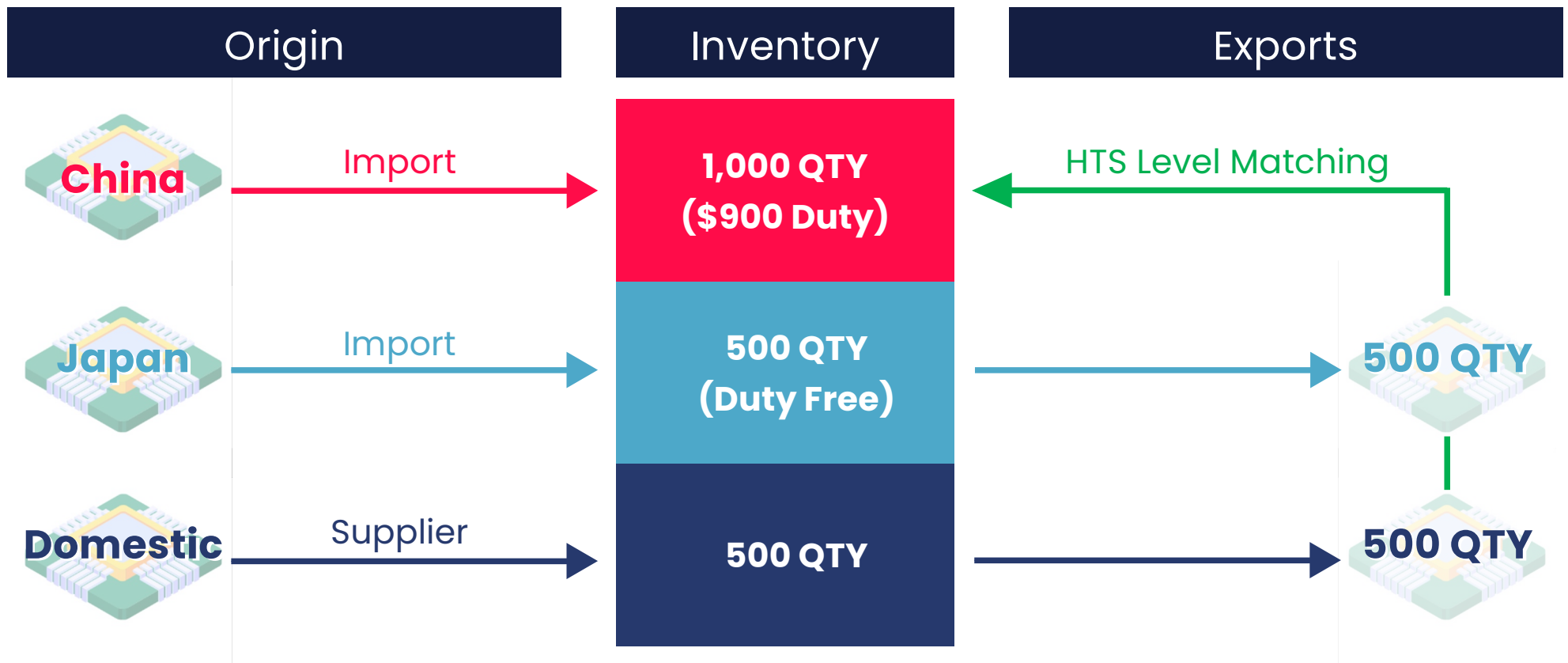
Duty-Paid Import



Qualifying Export

Substitution Principal at Work, (j) (2)

HTSUS 8542.31.0001 – Processors & Controllers

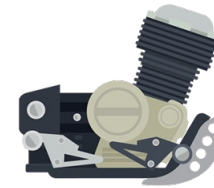


Manufacturing Drawback

19 USC 1313(a) and 1313(b)

- Manufacture process results in a product with a new name, character or different use.
- Specific ruling required for substitution unless covered.
- Substitution occurs at the raw material or component level.

Manufacturing Direct ID (Same Part, SKU, Material)



Duty-Paid Import



Qualifying Export

Manufacturing Substitution (Same 8 or 10-Digit HTSUS)



Domestic Source



Duty-Paid Import



Qualifying Export

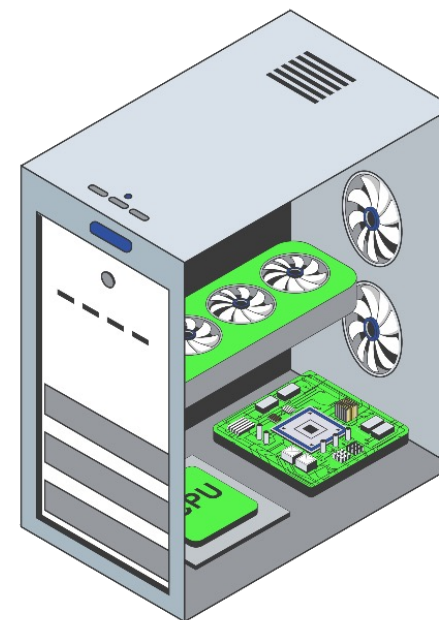
Substitution Principal at Work, (b)

Bill of Material Substitution Example

Imported & Domestic Components

Part	HTS	Std. Cost	Qty	Origin
Case	8473.30.9100	\$40.00	1	Domestic
GPU	8471.50.0110	\$300.00	2	China
CPU	8471.50.0110	\$195.00	1	China
Motherboard	8471.50.0110	\$160.00	1	Domestic
Power Supply	8504.40.6001	\$50.00	1	China
RAM	8471.50.0110	\$200.00	2	Domestic
Screws	8473.30.9100	\$0.03	20	China
Hard Drive	8471.70.4065	\$90.00	1	China

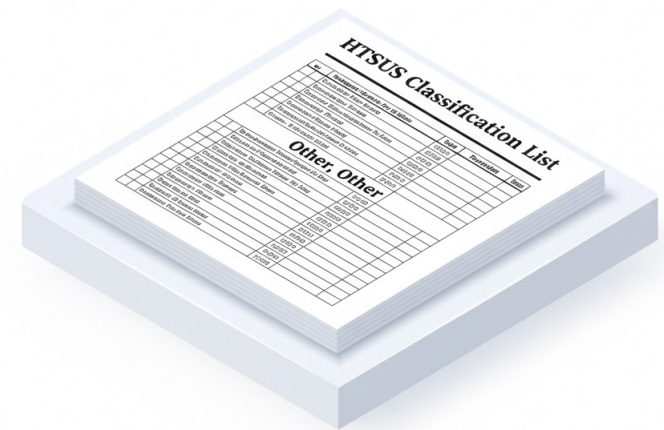
Exported Finished Good



The “Other” Problem

1313(j)(2) Restriction

- If the 8-digit HTS is “Other,” match at the 10-digit level.
- If the 10-digit HTS is “Other,” file under 1313(j)(1) instead.
- Petition ITC for a 10-digit HTS breakout.



USMCA Drawback Restrictions on J2

U.S. Exports to Canada, Mexico, or Chile

- No 1313(j)(2) for Canada or Mexico exports.
- No Manufacturing Drawback if duty-free into Canada or Mexico.
- Chile FTA has the same drawback restriction.



Drawback Tripwires

The First Filed Rule

- Mixing Direct Identification and Substitution Drawback on same HTS line prohibited.
- Impacts mostly companies with exports to both Canada, Mexico, and to rest of world with HTS Numbers that qualify for Unused Substitution, 1313(j)(2).



Drawback Tripwires

The Lesser of Two Values

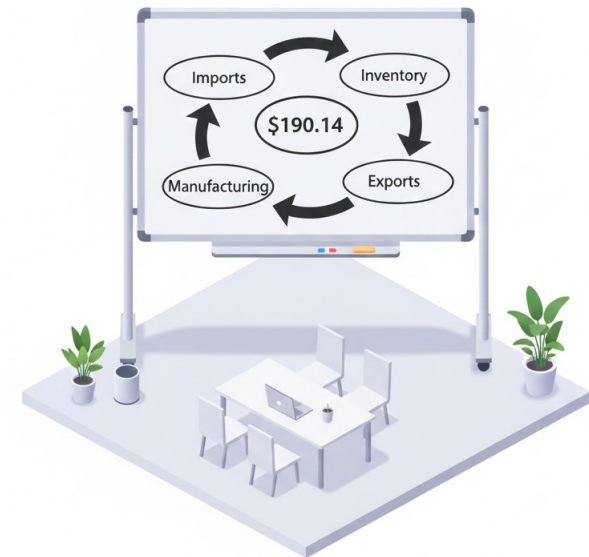
- Applies to substitution.
- Refund amount limited to the lesser value of the import or export.
- Manufacturing Substitution Drawback
 - Must continually update standard cost.
 - Need to classify domestic components and raw materials.



What Is a Drawback Accounting Method?

Why It Exists

- Enables compliant designation of imports for direct identification.
- Used when unique lot/serial numbers aren't available to trace merchandise from import to export.
- Applies when substitution is not permitted under the regulations.
- Used in third-party transfers.



Accounting Methods Basic Requirements



Direct Identification Gaps

- Comingled merchandise must be fungible.
- Must capture import duty paid at the part number level.
- Must substantiate quantities claimed.



Applying Accounting Methods

The Process

- Evaluate recovery potential vs. effort and compliance risk.
- Select the most advantageous accounting method for the business.
- Collect and validate all required data elements.
- Prepare the drawback claim using software with direct id capability.



The Drawback Accounting Methods



Approved Methods

- First-in, First-out (FIFO)
- Last-in, First-out (LIFO)
- Low-to-High
- Low-to-High, Inventory Turn
- Low-to-High, Blanket



Applying Accounting Methods



FIFO Example

- Must capture all receipts into inventory (imports, domestically sourced)
- Must capture all withdrawals from inventory (exports, domestic sales, samples, etc.)

Date	Receipts		Withdrawals		Bal.	99%
	Qty	Duty	Destination	Qty		Recovery
Jan 1 st	50,000	\$67,500			10,000	
Feb 5 th			Domestic	40,000	0	\$0
Mar 7 th	30,000	\$40,500			20,000	
Mar 15 th			Export	20,000	(10,000)	\$23,365
Apr 3 rd			Export	10,000	0	\$13,365
May 20 th	30,000	\$0			5,000	
Jun 4 th			Domestic	35,000	(25,000)	\$0
Jun 17 th	80,000	\$775,600			35,000	
Jul 25 th			Export	50,000	(45,000)	\$43,092
Aug 21 st			Domestic	30,000	0	\$0
Aug 27 th	60,000	\$81,000			10,000	
Sept 3 rd			Export	55,000	(50,000)	\$47,895
Oct 18 th	70,000	\$678,650			50,000	
Nov 27 th			Export	30,000	(20,000)	\$23,365
Dec 10 th			Export	40,000	0	\$383,922
						\$1,176,070

Applying Accounting Methods



LIFO Example

- Must capture all receipts into inventory (imports, domestically sourced)
- Must capture all withdrawals from inventory (exports, domestic sales, samples, etc.)

Date	Receipts		Withdrawals		Bal.	99%
	Qty	Duty	Destination	Qty		Recovery
Jan 1 st	50,000	\$67,500			5,000	
Feb 5 th			Domestic	40,000	0	\$0
Mar 7 th	30,000	\$40,500			0	
Mar 15 th			Export	20,000	0	\$26,730
Apr 3 rd			Export	10,000	0	\$13,365
May 20 th	30,000	\$0			0	
Jun 4 th			Domestic	35,000	0	\$0
Jun 17 th	80,000	\$775,600			0	
Jul 25 th			Export	50,000	0	\$479,303
Aug 21 st			Domestic	30,000	0	\$0
Aug 27 th	60,000	\$81,000			5,000	
Sept 3 rd			Export	55,000	0	\$73,508
Oct 18 th	70,000	\$678,650			0	
Nov 27 th			Export	30,000	0	\$287,942
Dec 10 th			Export	40,000	0	\$383,922
						\$1,265,369

Applying Accounting Methods



Low-to-High Example

- Only capture withdrawals for export
- Must capture all receipts into inventory (imports, domestic sourced) for 5-year time period
- Cannot claim other provisions during 5-year time period on designated part/SKU number

Date	Receipts		Withdrawals		Bal.	99%
	Qty	DPU	Destination	Qty		Recovery
Jan 1 st	50,000	\$1.35			0	
Feb 5 th			Export	40,000	0	\$53,460
Mar 7 th	30,000	\$1.35			0	
Mar 15 th			Export	20,000	0	\$26,730
Apr 3 rd			Export	10,000	0	\$13,365
May 20 th	85,000	\$0			0	
Jun 4 th			Export	35,000	0	\$0
Jun 17 th	80,000	\$9.70			0	
Jul 25 th			Export	50,000	0	\$0
Aug 21 st			Export	30,000	0	\$438,595
Aug 27 th	60,000	\$1.35			0	
Sept 3 rd			Export	55,000	0	\$73,508
Oct 18 th	70,000	\$9.70			10,000	
Nov 27 th			Export	30,000	0	\$246,634
Dec 10 th			Export	40,000	0	\$383,922
						\$1,236,213

Applying Accounting Methods



Other Key Takeaways

Low-to-High (Inventory Turn)

- Only capture withdrawals for export
- Must capture all receivals into inventory (imports, domestic sourced)
- At least 1 year, or 3 turn-over periods (if inventory turns over less than 3 times per year), must be averaged.

Low-to-High (Ordinary)

- Must capture all receipts into inventory (imports, domestically sourced)
- Must capture all withdrawals from inventory (exports, domestic sales, samples, etc.)

Accounting vs Optimization

Important Distinction

- Accounting supports proof (§190.14).
- Not a recovery strategy.
- Poor methods increase risk.



Record Keeping Categories

Varying Requirements by Provision

- Import and duty payment (All provisions).
- Inventory and accounting (Direct ID).
- Manufacturing or use (Manufacturing).
- Export or destruction (All provisions).



Import Recordkeeping



Starting Point

- Entry summaries.
- HTS and duty rates.
- Accurately capture post entry adjustments: recon, PSC's, protests, tenders, etc.

Import Records

- ✓ CF 7501
- ✓ Ocean or Airway Bill
- ✓ Commercial Invoice
- ✓ Packing List
- ✓ Purchase Order

Inventory Records



Extracts from ERP

- Most applicable to (j)(1) and manufacturing (a) drawback claims.
- Validates inventory movements under (j)(1).
- Tracks inventory withdrawals into production for manufacturing drawback.

Inventory Records

- ✓ Inventory Receipts
- ✓ Inventory Withdrawals

Proof of Export



The Achilles Heel

- Document that establishes date and fact of exportation.
- Generated by disinterested third party.
- AES record does not currently substantiating exportation.

Export Records

- ✓ Ocean or Airway Bill
- ✓ Commercial Invoice
- ✓ Packing List
- ✓ Sales Order
- ✓ Proof of Delivery
- ✓ If exporting to CA - B3
- ✓ If exporting to MX - Pedimento

Manufacturing Records



Production Proof

- Bills of material.
- Yield and waste.
- Input/output reconciliation.

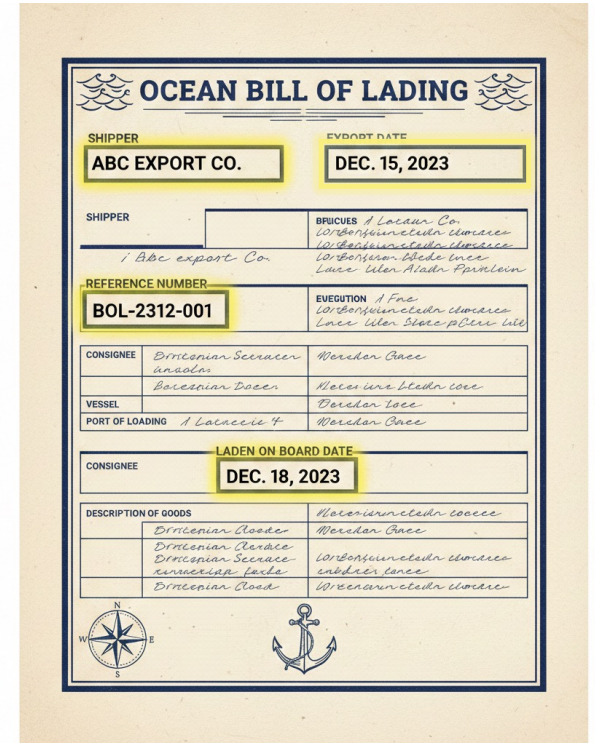
BOM Records

- ✓ Bills of Material
- ✓ Specifications
- ✓ Records of Use
- ✓ Waste Records

Record Retention



How Long to Keep Records

- 3 years after liquidation (§190.51(e)); new under TFTEA and beyond typical retention periods.
- Includes relevant third-party records.
- Claimant remains fully responsible for record retention.



OCEAN BILL OF LADING

SHIPPER ABC EXPORT CO.	EXPORT DATE DEC. 15, 2023
SHIPPER <i>ABC export Co.</i>	BRICVES <i>A Lacan Co. W/Bonjuvncldn dcoace W/Bonjuvncldn dcoace W/Bonjuvncldn dcoace W/Bonjuvncldn dcoace Laca Wln Bldn pCen int</i>
REFERENCE NUMBER BOL-2312-001	EVEGUTION <i>A Fac W/Bonjuvncldn dcoace Laca Wln Bldn pCen int</i>
CONSIGNEE <i>Briocian Scraen unadn Bocspian Doce</i>	<i>Wexhan Oace Wexhan Oace</i>
VESSEL <i>A Lacan Co.</i>	<i>Wexhan Oace</i>
PORT OF LOADING <i>A Lacan Co.</i>	<i>Wexhan Oace</i>
LADEN ON BOARD DATE DEC. 18, 2023	
DESCRIPTION OF GOODS <i>Briocian Oode Briocian Oode Briocian Oode Briocian Oode Briocian Oode</i>	<i>Wexhan Oace Wexhan Oace Wexhan Oace Wexhan Oace Wexhan Oace</i>

Where Programs Break Down

Main Denial Reasons Other Than Export Proof

- Noncompliance with filing provision requirements:
 - (j)(2) misclassification: Drawback acts as historical post-entry audit.
 - (j)(1): Must substantiate specific identification and accounting method compliance.
 - Undocumented accounting (§190.14).



Where Programs Break Down

Manufacturing Drawback

- Proper valuation (standard cost is default) and classification of components used to produce the export.
- Inaccurate bill of material records.
- Proper determination of claimable quantities – Waste calculations



Key Takeaways



Final Points

- Direct ID claims involve higher compliance risk and greater administrative effort.
- Accounting methods must align with §190.14 requirements.
- Prior favorable liquidations don't guarantee compliance: proper execution and strong record retention (§190.51) are essential.
- Avoiding first-filed loss requires analytics.



Thank you for joining me.
Questions?



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Alliance Drawback Services