



## Briefing paper: Tariff classification

The Harmonized Commodity Description and Coding System, generally referred to as ‘*Harmonized System*’ or simply the ‘*HS*’, is widely held as the true “*language of international trade*”. This is largely due to the Tariff’s versatile structure, multipurpose nature, and its wide ranging application.

The HS Nomenclature, developed by the World Customs Organization (WCO), transcends trade policy, rules of origin, monitoring of controlled goods, internal taxes, freight tariffs, transport statistics, quota controls and economic research and analysis.

### Customs duty liability

The cornerstones of Customs:

- Tariff classification
- Customs valuation
- Origin

are used to determine your customs duty liability. The adherence to the cornerstones and to the Customs processes and procedures constitute Customs compliance.

### Reducing your customs duty liability

It is possible, dependant on your economic activity, to reduce your Customs duty liability through the application, authorisation and use of a number of Customs Special Procedures (CSP).

### Categories of Customs Special Procedures

#### Processing

- Inward Processing (IP)
- Outward Processing (OP)

#### Specific Use

- Temporary Admission (TA)
- End Use (EnU)

#### Transit

- External
- Internal

#### Storage

- Customs Warehousing (CW)
- Free Zones

### Why you should classify your goods?

In accordance with the Union Customs Code (UCC, as an importer or exporter, you are responsible for the correct tariff classification of your goods.

### Tariff classification - ‘what is it’?

The term “*tariff classification of goods*” is defined in an Article of the UCC.

Although it might seem to be a simple endeavour, it could well prove more challenging than you might think.

Internationally, the Tariff comprises around 5,000 commodity groups, identified by a 6-digit code, whilst the EU Tariff comprises additional 8-digit subdivisions and legal notes specifically created to address the needs of the EU.

### Tariff Classification rules

Tariff classification is conducted according to the General Rules of Interpretation (GRI), beginning with GRI1.

If GRI does not apply, then you have to move to the remaining Rules in sequential order.

GRI 1 Classify goods at a heading (4-digit) level, based on the wording of the Headings, the relative HS Section and Chapter Notes.

GRI 2 Expanding the use of the 4-digit heading.

GRI 2a Incomplete and unassembled goods.

GRI 2b Mixtures and combinations of goods.

GRI 3 Classify goods that could potentially be classifiable under two different HS headings.

GRI 3a Something more specific

GRI 3b Classify goods where three tariff subheadings could potentially apply. Consider the most particular.

GRI 3c Last tariff subheading in numerical order.

GRI 4 Classify to goods it is most akin to.

GRI 5 Classify packaging.

GRI5 a Cases, Boxes and similar containers.

GRI 5b Packing material and packaging containers.

GRI 6 Classify goods at the 6-digit subheading level, based on the wording of the Subheadings and the relative HS Section and Chapter Notes.

### The Tariff

The EU Tariff consist of an amalgamation of:

- The Combined Nomenclature (CN) which is based on the Harmonized Commodity Description and Coding System (HS) - developed by the WCO.
- The Integrated Tariff (*Tarif Integre des Communautés Europeanes or TARIC*) which provides information on all trade policy and tariff measures that apply to specific goods in the EU plus 2 extra digits (*TARIC subheadings*).

By what does it mean?

#### HS

- Digits 1 to 2 - The HS tariff chapter.
- Digits 1 to 4 - HS tariff heading.
- Digits 1 to 6 - HS subheading (International)

#### CN

- Digits 1 to 8 - EU specific subheading (National).

#### TARIC

- Digits 1 to 10 - (*if it existed*) EU specific subheading used at import.

### An example

As a means of an example, consider commodity code 1806 10 15.

#### HS

- 2 digits Chapter 18: Cocoa and Cocoa Preparations.
- 4 digits '1806' Chocolate and other food preparations containing cocoa'.
- 6 digits '1806 10' Cocoa powder, containing added sugar or sweetening matter'.

#### CN

- 8 digits '1806 10 15' 'Containing no sucrose or containing less than 5 % by weight of sucrose (including invert sugar expressed as sucrose) or isoglucose expressed as sucrose'.

#### TARIC

- If there were two extra digits.

### Multipurpose Nomenclature

Among its more important uses are:

- The basis for Customs tariffs.
- The basis for the collection of international trade statistics.

- The basis for rules of origin.
- For the collection of internal taxes.
- As a basis for trade negotiations (e.g., the WTO schedules of tariff concessions).
- For transport tariffs and statistics.
- For the monitoring of controlled goods (e.g., wastes, narcotics, ozone layer depleting substances, endangered species).
- As a vital element of core Customs process areas of Customs controls and procedures, including risk assessment, information technology and compliance.

While the HS, as a multipurpose classification system, has many different uses, the primary use is still the collection of customs duties and taxes.

Classifying your goods correctly means that you:

- Pay the correct amount of duty and import VAT.
- Know if duty is suspended on any of your goods.
- Know if any preferential duty rates can be applied
- Know if you need to obtain an import or export licence for items such as:
  - plant and animal products on health, conservation grounds,
  - firearms, and
  - hazardous materials.
- Know if excise duty or anti-dumping duties apply.
- Avoid paying interest on back-payments for incorrect classification.
- Avoid seizure of your goods or delays to their movement.

### Time to act

If you are involved in international trade, be it inside or outside of the EU, you need to ensure that you apply the correct tariff classification for your goods.

The tariff classification has a direct impact on the customs duties that apply, the controls, that the customs declaration are correct and that MSS data, and Intrastat returns are correct.

Our specialist advisers can assist you with all aspects of tariff classification, including obtaining a Binding Tariff Information (BTI) Ruling.

Please contact one of our Indirect Tax specialists for further information:

#### Karen Robb

Partner

T +44 (0) 207 728 2556

E Karen.Robb@uk.gt.com

#### Riaan de Lange

Manager

T +44 (0) 207 728 2041

E Riaan.V.De.Lange@uk.gt.com