

# TARIFF CLASSIFICATION BASICS

Frontier Supply Chain Solutions Inc.



# Agenda

- ▶ History of the Harmonized Commodity Description and Coding System (H.S.)
- ▶ Importance of Correct H.S. classification
- ▶ Structure of the Tariff
- ▶ Summary



# History of the *Harmonized Commodity Description and Coding System* (H.S.)

# History of the Harmonized Commodity Description and Coding System

- ▶ Developed under the direction of the Customs Cooperation Council (CCC), now also known as the World Customs Organization (WCO)
- ▶ Intended to simplify the import and export of goods
- ▶ International system (first 6 digits)
- ▶ Multi-purpose system used by over 200 countries
- ▶ 98% of international trade classified in the Harmonized System
- ▶ Effective January 1, 1998 in Canada
- ▶ Effective January 1, 1989 in the United States
- ▶ Defines and describes imported products
- ▶ Consists of ten digits

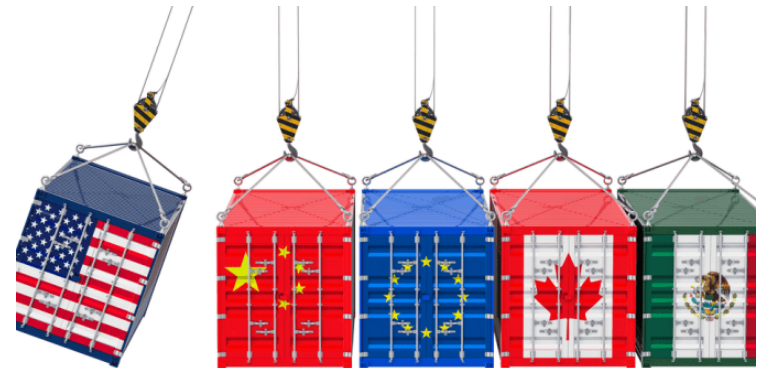


# Importance of Correct Classification



# Importance of Correct H.S. Classification

- ▶ Affects and determines the duty paid
- ▶ Basis for international trade agreements
- ▶ Specific rules of origin for determining tariff treatment are based on the H.S. classification
- ▶ Identifies goods that are subject to control
- ▶ Risk based assessment can be based on H.S. classification



# Structure of the Tariff



# Structure of the Tariff

- ▶ Contains 21 sections
- ▶ 99 chapters (Chapter 77 reserved; Chapters 98 and 99 are country specific)
- ▶ Sections are usually arranged in order of degree of manufacture
- ▶ Primary commodities are found in the beginning, with technical and more complex commodities near the end





# Tariff Schedule

- ▶ Section I – Chapters 1–5
  - > Live animals and animal products
- ▶ Section VII – Chapters 41–43
  - > Raw hides and skins, leather, fur skins and articles thereof; saddlery and harnesses; travel goods, handbags and similar containers; articles of animal gut (other than silk worm gut)

# Tariff Schedule

- ▶ Section XII – Chapters 64–67
  - > Footwear, headgear, umbrellas, sun umbrellas, walking sticks, seat sticks, whips, riding crops and parts thereof; prepared feathers and articles made therewith; artificial flowers, articles of human hair
- ▶ Section XV – Chapters 72–83
  - > Base metal articles
- ▶ Section XVI – Chapters 84–85
  - > Machinery and Electrical Apparatus

# Tariff Schedule

- ▶ Section XVII – Chapters 86–89
  - > Railway vehicles, motor vehicles, aircraft and vessels
- ▶ Section XX – Chapters 94–96
  - > Furniture, toys and games, sporting goods and miscellaneous goods



# Structure of a Tariff Classification Number



# Tariff Classification Number

- ▶ Example: Rubber Gasket

**RUBBER GASKET**

**\* Automotive application**



# Structure of a Classification Number

## ▶ Chapter

- The first 2 digits represent the chapter number
- The Chapter provides general descriptions of the products covered

|           |           |               |               |                     |
|-----------|-----------|---------------|---------------|---------------------|
| 40        | 16        | 93            | 19            | 10                  |
| • Chapter | • Heading | • Sub-heading | • Tariff Item | • Statistical level |

## Chapter 40

*Rubber and articles thereof*



# Structure of a Classification Number

## ▶ Heading

- The heading is always linked to the description text in the tariff
- The 3<sup>rd</sup> and 4<sup>th</sup> digits represent the heading relative to the chapter or where it is found

|           |           |               |               |                     |
|-----------|-----------|---------------|---------------|---------------------|
| 40        | 16        | 93            | 19            | 10                  |
| • Chapter | • Heading | • Sub-heading | • Tariff Item | • Statistical level |

## Heading 40.16

*Other articles of vulcanized rubber  
other than hard rubber*

# Structure of a Classification Number

## ▶ Sub-Heading

- The 5<sup>th</sup> and 6<sup>th</sup> digits of the classification number represent the sub-heading
- The sub-heading number represents the international subdivisions of the heading text for statistical purposes

|           |           |               |               |                     |
|-----------|-----------|---------------|---------------|---------------------|
| 40        | 16        | 93            | 19            | 10                  |
| • Chapter | • Heading | • Sub-heading | • Tariff Item | • Statistical level |

**Sub-Heading 4016.93**  
*Gaskets, washers and other seals*

# Structure of a Classification Number

## ▶ Tariff Item

- The 7<sup>th</sup> and 8<sup>th</sup> digits of the classification number represent the tariff item
- Duty rate is determined at this level

|           |           |               |               |                     |
|-----------|-----------|---------------|---------------|---------------------|
| 40        | 16        | 93            | 19            | 10                  |
| • Chapter | • Heading | • Sub-heading | • Tariff Item | • Statistical level |

**Tariff Item 4016.93.19**

*Of a kind used in the automotive goods of Chapter 87;  
Other*

# Structure of a Classification Number

## ▶ Statistical Suffix

- The 9<sup>th</sup> and 10<sup>th</sup> digits of the classification number are the statistical suffix
- They are used to provide product description for statistical purposes

|           |           |               |               |                     |
|-----------|-----------|---------------|---------------|---------------------|
| 40        | 16        | 93            | 19            | 10                  |
| • Chapter | • Heading | • Sub-heading | • Tariff Item | • Statistical level |

Statistical Suffix 4016.93.19.10

*Gaskets*

# Structure of a Classification Number

## ▶ Tariff Classification Number – Dissected

|           |           |                   |                  |                        |
|-----------|-----------|-------------------|------------------|------------------------|
| 40        | 16        | 93                | 19               | 10                     |
| • Chapter | • Heading | • Sub–<br>heading | • Tariff<br>Item | • Statistical<br>level |

- Chapter 40.....Rubber and Articles Thereof
- Heading 40.16.....Other articles of vulcanized rubber other than hard rubber
- Sub–Heading 4016.93.....Gaskets, washers and other seals
- ---Of a Kind used in the automotive goods of Chapter 87
- Tariff Item 4016.93.19.....Other
- Statistical Level 4016.93.19.10.....Gaskets

# Tariff Schedule

# The “Dash” – Unique to Canada

- ▶ **Use of Dashes** - -- --- ----
  - Used by most WCO Members
  - Dashes are used throughout the tariff to break down and to further refine the classification of a commodity
  - The best way to explain the use of dashes is to consider a system of comparison



WORLD CUSTOMS ORGANIZATION



# Canadian Harmonized Tariff Schedule

## CUSTOMS TARIFF - SCHEDULE

| Tariff Item | SS | Description of Goods  | Unit of Meas. | MFN Tariff | Applicable Preferential Tariffs   |
|-------------|----|---|---------------|------------|---|
| 40.16       |    | Other articles of vulcanized rubber other than hard rubber. |               |            |   |
| 4016.10.00  | 00 | -Of cellular rubber   | -             | 6.5%       | CCCT, LDCT, UST, MXT, CIAT, CT, CRT, IT, NT, SLT, PT, COLT, JT, PAT, HNT, KRT, CEUT, UAT, CPTPT, UKT: Free<br>GPT: 3% |
|             |    | -Other:   |               |            |   |
| 4016.91.00  |    | -Floor coverings and mats                                   |               | 7%         | CCCT, LDCT, UST, MXT, CIAT, CT, CRT, IT, NT, SLT, PT, COLT, JT, PAT, HNT, KRT, CEUT, UAT, CPTPT, UKT: Free<br>GPT: 5% |
|             |    | ----Mats:   |               |            |   |
|             | 11 | ----For automotive use .....                                | -             |            |   |
|             | 19 | ----Other .....   | -             |            |   |
|             | 90 | ----Other .....   | -             |            |   |
| 4016.92.00  | 00 | -Erasers  | -             | 6.5%       | CCCT, LDCT, UST, MXT, CIAT, CT, CRT, IT, NT, SLT, PT, COLT, JT, PAT, HNT, KRT, CEUT, UAT, CPTPT, UKT: Free<br>GPT: 5% |

# Canadian Harmonized Tariff Schedule

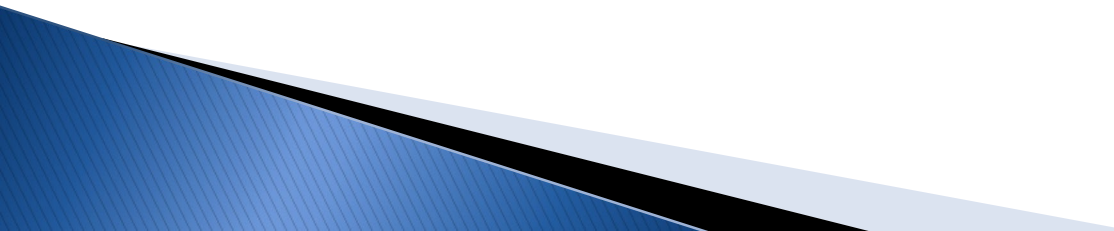
## CUSTOMS TARIFF - SCHEDULE

| Tariff Item   | SS | Description of Goods  | Unit of Meas. | MFN Tariff | Applicable Preferential Tariffs   |
|---------------|----|---|---------------|------------|---|
| 4016.93       |    | -Gaskets, washers and other seals   |               |            |   |
|               |    | - - -Of a kind used in the automotive goods of Chapter 87:                                  |               |            |   |
| 4016.93.11 00 |    | - - - -For use in the manufacture of aftermarket gas tanks and radiators for motor vehicles | -             | Free       | CCCT, LDCT, GPT, UST, MXT, CIAT, CT, CRT, IT, NT, SLT, PT, COLT, JT, PAT, HNT, KRT, CEUT, UAT, CPTPT, UKT: Free         |
| 4016.93.19    |    | - - - -Other  |               | 6.5%       | CCCT, LDCT, UST, MXT, CIAT, CT, CRT, IT, NT, SLT, PT, COLT, JT, PAT, HNT, KRT, CEUT, UAT, CPTPT, UKT: Free<br>GPT: 6.5% |
|               |    | 10 - - - -Gaskets .....   | -             |            |   |
|               |    | 30 - - - -Bushings.....   | -             |            |   |
|               |    | 40 - - - -Oil seals.....  | -             |            |   |
|               |    | 90 - - - -Other .....   | -             |            |   |

# Punctuation Matters



# Punctuation Matters

- ▶ Semi-colon ;
  - ▶ Colon :
  - ▶ Comma ,
  - ▶ A / Or **These 2 words mean something within the context of the HS code as well**
- 

# Comma (,)

- ▶ Used in a series or list of commodities.
  - ▶ Also used to set apart clauses or qualifiers which pertain to the commodities.
- Example 1: Heading 07.02  
**0702.00 Tomatoes, fresh or chilled**
  - Example 2: Heading 07.06  
**07.06 Carrots, turnips, salad beetroot, salsify, celeriac, radishes and similar edible roots, fresh or chilled.**

# Semi-colon (;)

- ▶ Indicates a full stop.
  - Example:  
**92.01      Pianos, including automatic pianos; harpsichords and other keyboard stringed instruments.**
- ▶ Commodities before the semi-colon are not related to those after the semi-colon, but both items, before and after the semi-colon, are properly classified under 92.01

# Colon (:)

- ▶ Indicates that additional information follows:
  - Example:  
**62.03      Ensembles:**
    - **of wool**
    - **of cotton**
- ▶ Ensembles of wool and ensembles of cotton are both classified in heading 62.03.  
The colon indicates that what is listed next is also included in the heading.



# Types of Duty

# Ad Valorem Rate of Duty

- ▶ A rate expressed as a percentage of the value for duty:

## CUSTOMS TARIFF - SCHEDULE

| Tariff Item   | SS | Description of Goods   | Unit of Meas. | MFN Tariff | Applicable Preferential Tariffs   |
|---------------|----|--|---------------|------------|---|
| 84.13         |    | Pumps for liquids, whether or not fitted with a measuring device; liquid elevators.            |               |            |   |
|               |    | -Pumps fitted or designed to be fitted with a measuring device:                                |               |            |   |
| 8413.11       |    | - -Pumps for dispensing fuel or lubricants, of the type used in filling-stations or in garages |               |            |   |
| 8413.11.10 00 |    | --For dispensing gasoline, diesel fuel, liquid natural gas or liquid propane                   | NMB           | 6%         | CCCT, LDCT, GPT, UST, MXT, CIAT, CT, CRT, IT, NT, SLT, PT, COLT, JT, PAT, HNT, KRT, CEUT, UAT, CPTPT, UKT: Free |
| 8413.11.90 00 |    | --Other  | NMB           | Free       | CCCT, LDCT, GPT, UST, MXT, CIAT, CT, CRT, IT, NT, SLT, PT, COLT, JT, PAT, HNT, KRT, CEUT, UAT, CPTPT, UKT: Free |

# Specific Rate of Duty

- ▶ A rate expressed in dollars or cents per unit of measure:

## CUSTOMS TARIFF - SCHEDULE

| Tariff Item | SS | Description of Goods              | Unit of Meas. | MFN Tariff   | Applicable Preferential Tariffs   |
|-------------|----|-----------------------------------|---------------|--------------|---|
| 07.01       |    | Potatoes, fresh or chilled.       |               |              |   |
| 0701.10.00  | 00 | -Seed                             | TNE           | \$4.94/tonne | CCCT, LDCT, UST, MXT, CIAT, CT, CRT, PT, COLT, JT, PAT, HNT, KRT, CEUT, UAT, CPTPT, UKT: Free |
| 0701.90.00  |    | -Other                            |               | \$4.94/tonne | CCCT, LDCT, UST, MXT, CIAT, CT, CRT, PT, COLT, JT, PAT, HNT, KRT, CEUT, UAT, CPTPT, UKT: Free |
|             | 10 | ---- -Certified organic .....     | TNE           |              |   |
|             | 20 | ---- -Not certified organic ..... | TNE           |              |   |

# Compound Duty Rates

- ▶ A percentage PLUS dollars and cents per unit:

## CUSTOMS TARIFF - SCHEDULE

| Tariff Item   | SS | Description of Goods          | Unit of Meas. | MFN Tariff               | Applicable Preferential Tariffs   |
|---------------|----|-------------------------------|---------------|--------------------------|---|
| 1102.90       |    | -Other                        |               |                          |   |
|               |    | -- -Barley flour:             |               |                          |   |
| 1102.90.11 00 |    | --- -Within access commitment | KGM           | Free                     | CCCT, LDCT, UST, MXT, CT, CRT, IT, PT, COLT, JT, PAT, HNT, KRT, CEUT, UAT, CPTPT, UKT: Free                   |
| 1102.90.12 00 |    | --- -Over access commitment   | TNE           | \$213.80/tonne plus 8.5% | LDCT, UST, MXT, CT, CRT, PT, COLT, JT, PAT, HNT, KRT, CEUT, UAT, UKT: Free<br>CPTPT: \$116.61/tonne plus 4.5% |

# Tools for Classification

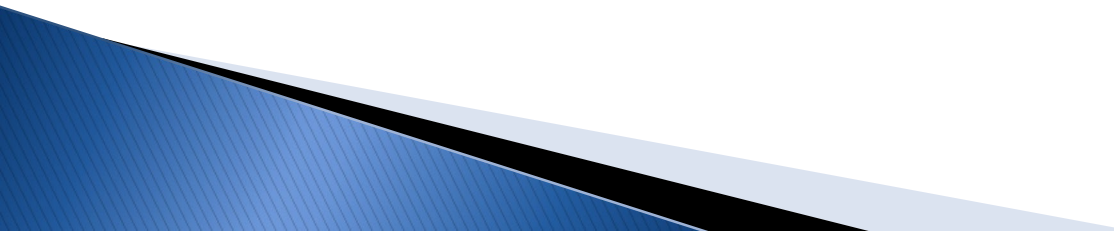


# Tools for Classification

- ▶ There **are six basic tools** to assist in classification:
  - General Rules of Interpretation
  - Legal Notes
  - Explanatory Notes
  - Table of Contents (located at the beginning of the tariff)
  - Alphabetical Index
  - Other (Customs Rulings, Section and Chapter Notes, Internet, Dictionary, Product Catalogues etc.)



# General Rules of Interpretation (GRI)

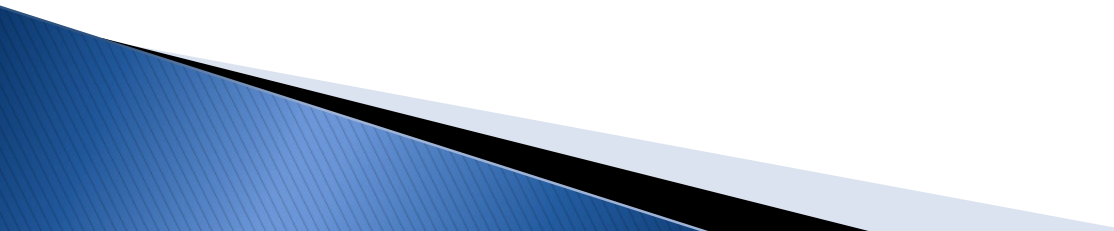
- ▶ GRI are found at the beginning of the Tariff Schedule
  - ▶ The H.S. has six GRI which form the principles upon which classification is based
  - ▶ Canada has 3 additional “Canadian Rules”
  - ▶ Understanding these rules and their application is imperative for determining the proper classification of products
- 



# General Rules of Interpretation (GRI)

- ▶ Rules 1 to 4 must be applied in sequence
- ▶ Rule 5 deals specifically with containers and packing
- ▶ Rule 6 relates to classification at the sub-heading level
- ▶ If an item is named in or included in the wording of the heading and the legal or explanatory notes does not exclude the item, you should have the correct classification

# General Rules of Interpretation (GRI)

- ▶ GRI 1 reflects the basic reasoning on which the entire HTS is based
  - ▶ The premise behind the HTS is what the goods ARE, and not what they are used for.
  - ▶ Classification for the most part is done by the application of this GRI
- 

# Legal Notes

- ▶ Located at the beginning of each section and chapter throughout the H.S.
- ▶ Set legal precedence
- ▶ There are four types of Legal Notes:
  - Section Notes
  - Chapter and Sub-Chapter Notes
  - Heading and Sub-Heading Notes
  - Supplementary Notes

# Legal Notes

- ▶ These notes have three main functions:
  - To define the limits of a heading or sub-heading; that is, they place boundaries on the goods that can be classified within a tariff classification number
  - To provide a list of goods included in a section, chapter, heading or sub-heading
  - To provide a list of goods excluded from a section, chapter, heading or sub-heading

# Explanatory Notes

- ▶ Official interpretation of the World Customs Organization (WCO)
- ▶ Separate from the Harmonized Tariff system
- ▶ Sequence is the same as the tariff
- ▶ Contains reprints of Legal notes; however, do not set legal precedence
- ▶ Contain technical descriptions, appearance, properties, methods of production or use
- ▶ Five levels including Section, Chapter, Heading, Subheading, Supplementary

# Products Areas that are Difficult to Classify

- ▶ Parts & Accessories
- ▶ Sets and kits
- ▶ New products on the market
- ▶ Multipurpose products
- ▶ Products consisting of mixed materials
- ▶ Products that can be described by several different names
- ▶ Chemicals
- ▶ Dual purpose goods



# Products Areas that are Difficult to Classify

- ▶ **Part:** defined as an *identifiable component of an article, machine, apparatus, equipment, appliance or specific good which is “integral” to the design and essential to the function of the product in which it is used.*
- ▶ **Accessory:** defined as *an article which performs a secondary or subordinate role, not essential to the function, which could improve the effectiveness of the host machine, equipment, apparatus or appliance.*

# Products Areas that are Difficult to Classify

Generally classified according to GRI 1;  
Consideration shall also be given to GRI 2 through 6

## ▶ **Parts & Accessories**

- Specifically named in a heading
- Parts of general use
- Parts suitable for use solely/principally with a particular kind of machine OR with machines of the same heading
- Multi-purpose parts & accessories



# Products Areas that are Difficult to Classify

GRI 3(b) allows certain “goods put up in sets for retail sale to be classified collectively”

## ▶ Sets & Kits

- Consist of at least two different articles which are classifiable in different headings
- Consist of products or articles put together to meet a particular need or carry out a specific activity
- Are sold directly to users without repacking (e.g., in boxes or cases or on boards)

# How would I classify...

## ▶ Car Emergency Kit

[warning sign, bandages, scissors, candles, blanket]

- Is this a kit?
- Particular need / specific activity?
- Clearly intended for use together?
- Single purpose?



# Types of Goods that are Difficult to Classify

## Key Considerations

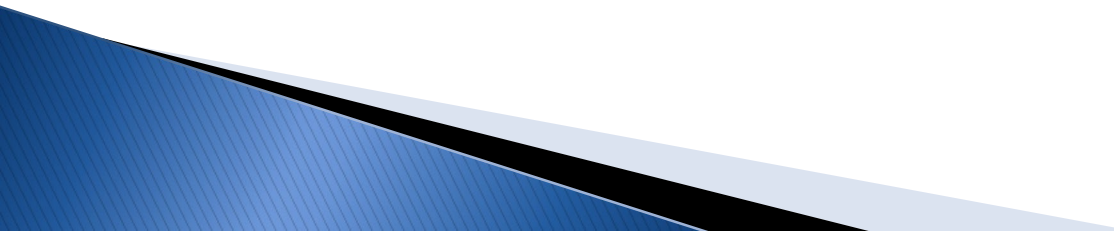
Step by Step Methodology:  
Tariff Schedule, GRIs, Legal Notes, Explanatory Notes

## New Products on the market

- Review product specific data
- Refer to CBSA classification policies (D10)
- Review Tariff Schedule – applicable sections / chapters
- Review Legal and Explanatory Notes
- Follow the GRIs
- Read text of heading, noting punctuation
- Consider requesting an Advance Ruling

# Tariff Classification Summary

# Classification Summary

- ▶ Determine what the product is, its material composition and its use (primary function). Is the product specifically named in the H.S.?
  - ▶ Review and apply the GRI, Legal Notes and Explanatory Notes
  - ▶ Read text of heading, noting punctuation
  - ▶ Determine inclusions & exclusions, using Legal Notes
  - ▶ Refer to explanatory notes for assistance
  - ▶ Compare and follow the same steps at the same level
  - ▶ Utilize tools and resources
  - ▶ Review jurisprudence and Customs rulings
- 

A green rectangular sign with rounded corners and a white border, mounted on two wooden posts. The sign features the text "Thank You" in a large, white, sans-serif font. The background is a bright blue sky with scattered, fluffy white and light brown clouds, suggesting a clear, sunny day.

**Thank You**