

Proper Tariff Classification Impact on Business: How to Avoid Misclassification

Article

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Companies that import products into the United States need to understand how to properly classify their products because misclassification can lead to severe financial penalties and increased business costs.

Determining Correct Classification

Each type of product entering the U.S. is assigned a 10-digit code in the Harmonized Tariff System of the United States (HTSUS). This unique number helps custom officials understand what the product is, what it is made of, and what it is used for. The code also determines the amount of import duties to be paid on it and how much of the product is being imported into the country.

The first step in correctly classifying your product is understanding how the HTSUS is organized. HTSUS organization starts with chapters, which are then subdivided into headings, and further subdivided into subheadings for specific items.

Figuring out the specific classification for a product typically involves two steps. The first of the two steps is to know the product's composition, use, and function. The second step is to review the HTSUS to find the appropriate chapter, heading, and subheading for the product using the General Rules of Interpretation guidelines, which is a step-by-step guide for product classification.

If, after going through the two-step process, you are still unsure about the product's HTSUS tariff item, a request for an advisory opinion and or a binding ruling from U.S. Customs and Border Protection ("CBP") to get the proper classification of the product may be warranted.

How Misclassification Can Impact Business

Below are three real-life examples that illustrate how misclassification of an imported product can impact a company's business.

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CASE STUDY 1:

An electronics company faced significant fines after incorrectly classifying a new model of smartphone. The device had advanced features that warranted a different HTSUS tariff item than the company's standard model. This misclassification resulted in the underpayment of duties, which led to penalties and a lengthy legal process to rectify the error.

CASE STUDY 2:

A textile importer incorrectly identified a shipment of blended fabric garments as 100 percent cotton. The actual material was a mix of cotton and synthetic fibers, which fell under a different HTSUS tariff item with a higher duty rate. This error was discovered during a routine audit, resulting in the company paying back duties to customs.

CASE STUDY 3:

A small family-owned artisan grocery store decided to import organic honey. The company initially classified the honey under a generic HTSUS tariff item for food products. However, the HTSUS required a more specific classification based on the type of honey—whether it was organic, flavored, or contained added sweeteners. After delays due to misclassification, the company sought advice from an expert who properly classified the honey. The new HTSUS tariff item had a lower duty rate, which significantly reduced the import cost paid for the honey.

Conclusion

In summary, proper classification of an imported product can reduce import costs and prevent penalties and shipment delays.

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