

# AUTOMATE INTERNATIONAL TRADE COMPLIANCE

with Avalara Tariff Code Classification  
and AvaTax Cross-Border



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## ABOUT AVALARA

Avalara helps businesses of all sizes get tax compliance right. In partnership with leading ERP, accounting, ecommerce, and other financial management system providers, Avalara delivers cloud-based compliance solutions for various transaction taxes, including sales and use, VAT, GST, excise, communications, lodging, and other indirect tax types. Headquartered in Seattle, Avalara has offices across the U.S. and around the world in Brazil, Europe, and India.

More information at [avalara.com](https://avalara.com)

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# The cross-border landscape

Cross-border selling is one of the fastest-growing areas within ecommerce. In 2024, the cross-border market is **estimated to be over \$1 trillion**, presenting a huge opportunity for growth.

The U.S. has one of the most open cross-border markets, evidenced by the generous \$800 de minimis value, favorable trade terms, and the second-largest ecommerce market in the world. Yet, for many businesses outside the U.S., this market opportunity remains largely untapped.

**Recent findings show** that 60% of U.K. business leaders are opting against venturing into new markets, specifically the U.S., due to the impact of navigating cross-border tax complexities.

And according to **Digital Commerce 360**, almost 50% of leading online U.S. retailers are ignoring international customers, and even going as far as to restrict online goods to buyers outside the U.S. The reason? Complicated regulatory and trade compliance rules in the cross-border market. It's undeniable – selling and shipping cross-border can be complex and confusing, and compliance complexity continues to stifle international business growth.

When selecting a tax compliance solution to help with cross-border or international sales transactions, consider a solution like **Avalara AvaTax Cross-Border and our suite of cross-border solutions** that will help solve these business challenges.

\$1T

or more is estimated in 2024 for the cross-border market,

**HUGE OPPORTUNITY FOR GROWTH**

Source: *Avalara*



60%

of U.K. business leaders

**ARE OPTING AGAINST SELLING INTO NEW MARKETS, PARTICULARLY THOSE IN THE U.S.**

Source: *TechRadar*



# Adapt to changing international trade rules and regulations

Adapting to changing rules and regulations of international trade is challenging due to the complexity and variability of trade policies across different countries and regions. Frequent revisions to these regulations require businesses to invest significant time and resources into staying informed and adjusting their operations accordingly.

The same is true for classification: the Harmonized System (HS) is intricate and nuanced, requiring a deep understanding of product characteristics and trade regulations. Frequent updates and revisions to HS codes also demand continual monitoring and adjustment – another resource-intensive and error-prone process.

Avalara maintains comprehensive, up-to-date regulatory trade data, which is available on-demand via web services or seamlessly linked to our web-based tools. This data includes tariff data such as regular and preferential rates, and ad valorem (duty charged as a percentage of the value of the goods) and specific duties, and national import and export schedules, in both English and the official language of the destination country (where available).

**[Avalara international tax and compliance solutions](#)** can scale to meet your needs, no matter the size of your business. Whether you need to classify a handful of products or thousands of SKUs, Avalara offers the scalability and flexibility to support your business growth.



# Streamline the classification process

HS code classification is the cornerstone of any successful cross-border strategy. Automating HS code classification helps streamline the process by allowing businesses to quickly and more accurately classify products.

Replacing manual and error-prone methods of classification with automation (and human expertise) helps improve compliance and the accuracy of customs and trade documentation. In turn, improvements in trade documentation result in fewer delays in customs, reduce additional supply chain and delivery costs, and help improve customer satisfaction by meeting delivery expectations.

**Avalara's Tariff Code Classification solutions** allow businesses to quickly and efficiently classify their products to country-specific HS codes to aid in taxability determinations and shipment requirements for their products to over 180 countries. From self-serve capabilities to managed classification services combining AI-based tech with a team of classification experts, Avalara ensures more accurate classification of products according to the latest HS codes and international trade regulations.



## Case study Marketplace – Threadless

**Threadless**, an online community of artists and an ecommerce marketplace, has grown significantly over the past two years, launching local delivery options in Australia, Canada, and the EU. The team at Threadless focuses on its mission – to support independent artists and help them monetize their art. Developing expertise around sales tax compliance doesn't fit into that mission.

Avalara AvaTax for both domestic and international tax calculations solves the company's tax compliance requirements for sales tax collection, customs and duties, and the like. Threadless also uses Avalara Returns for automatic filing in all 50 U.S. states. For help with its international sales, Threadless uses Avalara Managed Tariff Code Classification to assign the right HS codes for the applicable country.

**“I don't ever lose sleep over it, it runs like clockwork – you don't hear it, you don't see it, but it's always there keeping good time. I'd have to hire at least three people with tax experience to do the work that Avalara is doing for us.”**

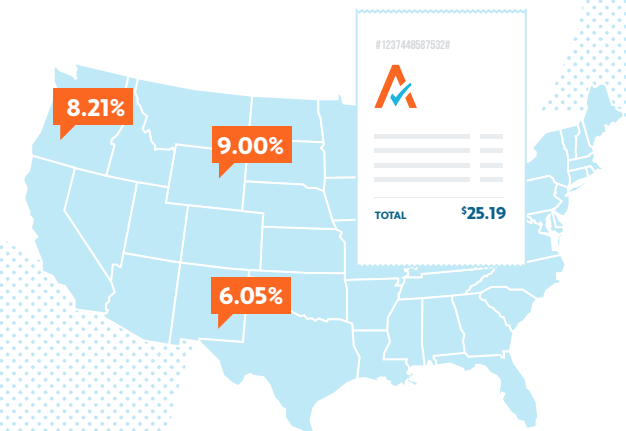
– Jason Macatangay, Chief Financial Officer, Threadless

### TAX CHALLENGES

- Compliance risk
- Tax complexity
- Company growth

### BENEFITS

- Gained peace of mind through Avalara's proven expertise
- Allowed confident growth with expansion in new markets
- Enabled the team to focus on core business tasks by offloading tax compliance



## Elevate customer satisfaction

Customer experience, loyalty, and repeat purchases serve as the lifeblood of an ecommerce business and have a significant impact on the sustained success and profitability of a business. In the competitive online landscape, providing a seamless and positive customer experience is paramount.

Since international customers are increasingly looking for more transparency on costs when browsing goods online, the ability of ecommerce retailers to provide more accurate calculations of import duties and taxes at checkout is key. Adopting a **Delivered Duty Paid** (DDP) approach (vs Delivered at Place) allows the customer to see all charges, including product price, pre-calculation of taxes, delivery fees, and customs duties. With DDP, they know exactly how much they'll have to pay to get the product delivered to their door.

This transparency promotes trust, reduces online purchasing anxiety, improves the likelihood of conversion at checkout, and minimizes the shock of surprise fees and rejected shipments by the customer.

With **Avalara AvaTax Cross-Border**, businesses can calculate customs duties and import taxes at the point of sale, creating a transparent and frictionless online shopping experience for international customers. AvaTax Cross-Border integrates seamlessly with **Avalara Tariff Code Classification** and its managed services counterpart, enabling businesses to automate the assignment of their HS codes as well.

And for international sellers looking to know what government restrictions are in place when selling goods across borders, the **Avalara Trade Restrictions Management** solution can help. This solution gives businesses the foresight to facilitate more careful and effective merchandising, which can help them reduce costs, focus their efforts on profitable transactions, and deliver a superior customer experience.



# Stay compliant with limited time and in-house expertise

Many businesses lack the time, resources, and in-house expertise to effectively manage the complexity of the HS code system, which demands almost continuous education and robust processes to ensure seamless and compliant cross-border transactions.



**In our survey,** respondents that outsource HS classification, duties and tax calculations to a solutions provider or partner cited marked improvements such as:

- Greater compliance with changing rules and regulations
- A reduced workload for employees
- A more streamlined and safer documentation process
- Fewer errors made in trade documentation

Achieving in-house expertise is costly and time consuming. Businesses need to either invest in the hiring of experienced professionals or develop existing staff by providing initial upfront and ongoing training, not to mention the costs of having to maintain trade and customs compliance systems and databases, and the consequences of wrongly classifying items.

**Avalara Self-Serve Tariff Code Classification** is the most cost-effective classification offering, allowing customers to generate tariff codes on a needs-only basis, which is ideal for customers new to assigning tariff codes or selling across borders. This automated software allows businesses to instantly receive more accurate HS codes by entering the description of a commercial good and answering required questions. With an intuitive user interface, there's no need for prior experience in HS classification, allowing even junior or new team members to find the correct tariff codes rather than relying on a costly, seasoned custom broker to manage.

Avalara is also trusted by governments around the world. For example, the U.S. Census Bureau trusts Avalara to power its Schedule B Search Engine.



## Eliminate manual processes for determining country-specific tariff codes

Attempting to determine the correct classification manually (and without expertise) is a time-consuming task, even more so for businesses with a footprint in multiple countries that may have thousands, or even hundreds of thousands of SKUs. And classification is not a one-time process but rather ongoing and continuous. As product and service catalogs (and tax laws) change, this necessitates year-round attention, staffing, and resources.

Automating the classification process can decrease the amount of time staff spend on researching and making decisions on classifications and the country-specific rules for entire product and service catalogs. Businesses can stay on top of their quickly growing and ever-changing product and service catalogs without the need to dedicate or find additional resources and headcount to manage large volumes.

**Avalara Managed Tariff Code Classification** automates the classification process to help provide fast, consistent item classification to tariff codes for any consumer product to any country. Our solution is cloud-based and scales fluidly to support product volumes ranging from dozens to millions, uniquely combining a powerful AI-based classification engine with scalable human expertise.



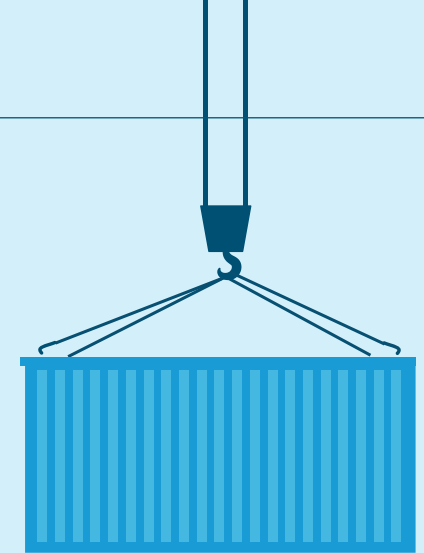
# Reduce the risk of noncompliance and lower the frequency of goods stuck in customs

Due to the inherent complexity of the HS code system, manually assigning codes can be challenging and time consuming. Different interpretations and ambiguities can lead to inconsistency and miscalculations, and inaccurate HS code classification may result in audits, penalties and fines, and goods stuck in customs.

HS codes, and regulations themselves, are subject to frequent changes and updates. Failing to keep up with the changes further increases the likelihood of noncompliance and goods being delayed in customs.

**Avalara Tariff Code Classification** solutions are AI-enabled and help ensure that businesses assign more accurate HS codes to their products. The solutions are designed and built to offer HS code support for 180+ countries. Avalara aggregates data from multiple authoritative sources, including government agencies, customs authorities, international trade organizations, such as the World Customs Organization, and industry-specific bodies. These sources provide information on HS codes, tariff rates, changing trade regulations, and other important trade data.

And with **Avalara Managed Tariff Code Classification**, businesses can employ Avalara experts in international trade compliance and regulatory affairs to monitor, analyze, and interpret regulatory changes. Our experts ensure the data is accurately categorized, verified for reliability, and properly integrated.



# Eliminate the need to work with multiple shipping carriers or customs brokers



Unfortunately, many shipping carrier and customs broker partners see classification as a frustrating means to an end (e.g. monetizing their core shipping or customs brokerage services) and prefer that businesses do their own classifications.

If businesses cannot do their own classifications, the partner may charge higher fees to do this on the business's behalf, and in some situations may refuse to share the output to protect future revenue streams, forcing the business to buy over and over again.

Businesses may also need to use multiple partners; for example, businesses that choose to use shipping carrier and customs broker partners for classification may also need to purchase separate duties calculation engines.

Maintaining multiple partners and tax systems is time consuming, complex, and increases the risk of costly errors.

**AvaTax Cross-Border** unifies customs duty, import tax, and sales and use calculations in a single platform, simplifying your operations and supporting your global and domestic needs with continually-researched tax content across hundreds of international jurisdictions. AvaTax Cross-Border **integrates** seamlessly with leading ecommerce platforms, marketplaces, and ERP systems, streamlining the tax calculation process for cross-border transactions.

Businesses can get up and running quickly by providing Avalara with their product descriptions to instantly estimate customs and

duties without providing upfront HS codes. For those looking for additional classification support, **Avalara Managed Tariff Code Classification** seamlessly integrates (via prebuilt integrations) with AvaTax Cross-Border, allowing businesses to benefit from more accurate and efficient assignment of country-specific tariff codes to products.

Automating this complex process not only releases businesses from the burden of time-consuming and potentially inaccurate classifications, it also helps businesses reduce the risk of customs delays and compliance errors, improving customer satisfaction while helping to preserve and grow cross-border sales margins.

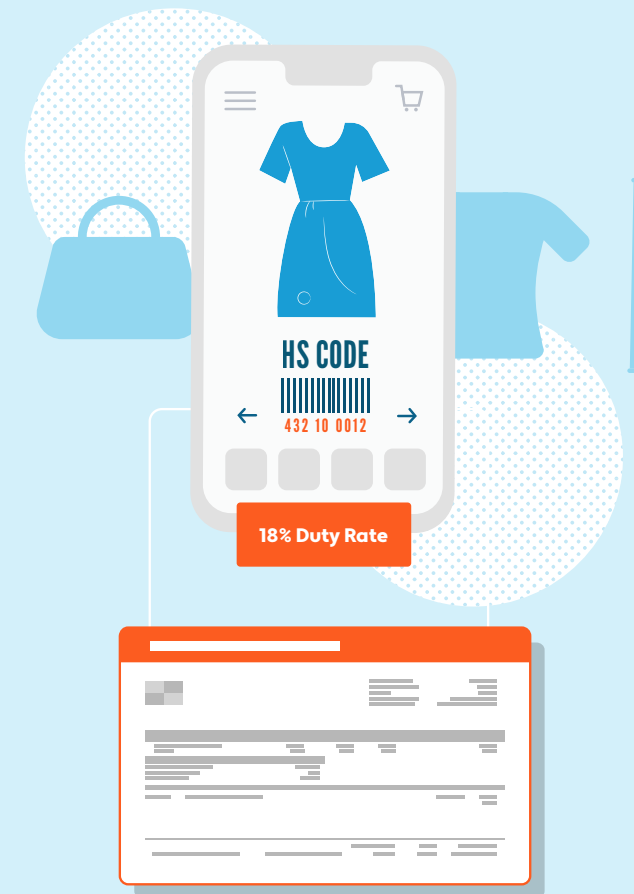
## Support and validate the assignment of given tariff codes

When submitting customs declarations, importers and customs brokers are required to document the rationale behind the assignment of tariff codes, proving they have exercised reasonable care in the assignment of the tariff code (including pulling in General Rules of Interpretation (GRIs) and chapter notes). Manually documenting this rationale is challenging and time consuming, and if the documentation isn't accurate, it can leave customs brokers and importers with fines and unwanted attention from customs agencies.

**Avalara Managed Tariff Code Classification Premium** is an expert-led service that leverages our in-house expert classifiers to provide importers and customs brokers the background and rationale to support customs audits. It assigns more accurate HS codes for complex products, analyzing ingredients, materials, and more, and provides the documentation and validation of how the tariff code was determined, including GRIs and related chapter notes.

Avalara Managed Tariff Code Classification Premium can also be used as a service to accompany a duty calculations tax engine, or, through prebuilt integration with **AvaTax Cross-Border**, as part of a cross-border tax compliance solution, unifying duty, import tax, and sales and use tax calculations.

AvaTax Cross-Border can be **integrated** with existing ecommerce technology via prebuilt connectors, or businesses can take advantage of our robust API to tailor AvaTax Cross-Border to specific business needs.



## Case study

### Retail and Ecommerce

#### – Performance-focused cycling company

Founded by athletes with a focus on aggressive mountain biking footwear, **the company** faced tax challenges due to misclassifications of inbound shipments from China to the U.S. This led to disruptions in receiving goods and significant overcharging of duties and tariffs. The complex nature of duty calculations, varying standards between countries, and intricate rules within each country, particularly in the case of footwear, resulted in a duty rate increase from 5% to over 20%.

To address these issues, recommended by its freight forwarding service, the company turned to Avalara for Managed Tariff Code Classification. Avalara invested time to understand the products and the manufacturing processes, providing HS codes not only for U.S. imports but also for exports to Canada.

After a thorough review and confidence in the assigned codes, Avalara integrated them directly into the company's ERP system.

#### TAX CHALLENGES

- Tax complexity
- Compliance risk
- Manual costs
- Process inefficiency

#### BENEFITS

- Confidence in duty and tariff codes
- Increased margins due to correct customs calculations
- Assured goods will flow as expected



# Achieve more with AvaTax Cross-Border and Avalara Tariff Code Classification



**With Avalara, your business can get ahead while staying compliant. From complying with state-specific sales tax rules, to providing platinum-level customer satisfaction, and growing your company, Avalara can help your business meet significant challenges and position itself for success.**

Avalara Cross-Border connects all pieces of the global tax puzzle by automating tariff code classification and delivering real-time calculation of customs duties, import taxes, and sales and use taxes. It is the ideal tax solution for online sellers seeking to establish a modular, best-of-breed platform to power their cross-border needs. Unlike some of the black box solutions out there, Avalara Cross-Border is an open point solution designed to work in harmony with the rest of your ecommerce technology components, providing the freedom to choose other best-in-class partners.



# Go beyond tariff classification

Avalara international tax solutions make it easier to sell anywhere in the world. In addition to automating the process of identifying and mapping tariff codes to goods, Avalara can help you with registration, calculating customs duties and import taxes, e-invoicing and live reporting, VAT returns and reporting, and fiscal representation.

Ready to connect? [Talk to one of our cross-border experts](#) to see how we can help support your international growth, or [visit our product page](#) to learn more and choose the best solution for your business.

*Disclaimer: Tax rates, rules, and regulations change frequently. Although we hope you'll find this information helpful, this report is for informational purposes only and does not provide legal or tax advice.*