Navigating the crosswinds of cross-border ecommerce

Cross-border online sales are booming, and governments are responding with new regulations and high-tech enforcement, including AI. With higher tariffs and new restrictions looming, retailers and brands need top-flight regulatory expertise in order to keep selling more internationally.

Avalara

DIGITAL COMMERCE 360

Contents

EXECUTIVE SUMMARY:
CROSS-BORDER ECOMMERCE IS IN A SENSE A VICTIM OF ITS OWN SUCCESS.

As more and more online shoppers get accustomed to purchasing from retail websites in other countries, governments are stepping up scrutiny of the billions of largely low-value parcels arriving at their borders each year.

Retailers and brands must comply with rapidly evolving regulations to make sure their customers' orders arrive in a timely way.

And now with the threat of tariff wars that could change the customs duties required on many products, possibly with little warning, compliance takes on a higher priority.

This report will concisely summarize the state of cross-border ecommerce, the new regulatory hurdles governments are imposing and suggest five important tips that can help retailers and consumer goods manufacturers take advantage of the growth in cross-border online sales.

$1 trillion and growing

That growth is strong and steady. According to **Expert Market Research**, the global cross-border market size reached approximately $1.01 trillion in 2024 and is estimated to grow at a CAGR of 23.1% in the forecast period of 2025-2034, reaching a value of around $6.72 trillion by 2034.

55% of online shoppers said they purchase from websites in other countries **in a 2023 survey by delivery service DHL**. But the percentages diverged widely by country. While 95% of consumers in Poland shop from foreign websites, as do 74% of shoppers in Morocco and South Africa, that was true of only 37% in the United States and 42% in the United Kingdom.

When consumers have many appealing options in their own countries, they'll mainly shop with domestic sites. But when those options are limited, they are more likely to look abroad. So that's a consideration for retail organizations considering where to expand their global online operations.

The survey showed consumers mainly shop cross-border for lower prices and greater selection, but there again that varies by market. In China, for example, where many consumers are wary of the quality of domestic products, many shoppers look abroad for food products and health and beauty items.

Regulations keep many retailers from shipping internationally

Despite the willingness of so many consumers to shop from websites in other countries, many leading online sellers don't ship internationally. Fewer than half of the 1,000 leading North American online retailers by web sales ship even to major markets like the U.K., Germany or Japan, according to U.S. news and research firm Digital Commerce 360[1].

That means those retailers that do invest in cross-border sales have less competition than they face at home.

[1] *Digital Commerce 360 Top 1000 report, page 71.*

What keeps them from exploiting the cross-border opportunity? While executives **surveyed by Reuters and Avalara** most often cited delivery costs as a major pain point (55%), that was closely followed by the 54% who pointed to customs regulation compliance and the rules related to Harmonized System codes, the codes the nations of the world use to identify inbound goods.

While there is a standard 6-digit HS code that's universally applied, many countries add additional digits to their codes, increasing the complexity for sellers. Getting the code wrong can lead to goods being rejected or delayed at customs or charged a higher duty than necessary. No wonder that executives view HS codes as a major obstacle.

Governments tighten enforcement

The growth in cross-border ecommerce is leading many nations to step up scrutiny of inbound packages. They aim to increase their revenue by collecting additional taxes and customs duties, protect domestic merchants and prevent importing of illegal drugs and other prohibited goods.

One example of that stricter scrutiny is the ICS2 regulations the European Union has been phasing in over the last few years. These rules require more information about the goods contained in arriving parcels and about the buyer and seller.

The U.S. Customs and Border Protection agency also is requiring more information about goods coming into the U.S. under the Section 321 rule that allows duty-free import of goods valued at less than $800. And these government agencies aren't just taking the word of sellers and their brokers that they are telling the truth. Increasingly, they are using advanced technology, such as X-rays and artificial intelligence to identify packages that merit a closer look.

In short, the rules are getting stricter, and customs agencies will in coming years be better able to detect infractions.

5 keys to cross-border success

Tougher enforcement need not deter retailers and brands from selling cross-border. They just need to develop expertise in cross-border regulations, or partner with companies that specialize in compliance. This report highlights five strategies that can help retailers meet these challenges. We'll summarize them briefly here:

1. **Properly classifying goods for import:** This means mastering the complexity of HS codes or working with a provider with that expertise. There are 5,000 HS codes used by all countries, but thousands more when taking into account the additional digits that many nations add to their codes. A retailer that uses a generic 6-digit code may pay a higher duty than if it used the country's more specific 10-digit code. In some cases, the goods won't even make it through customs. **Getting HS codes right** is a must for success in cross-border ecommerce.
2. **Understanding national restrictions on imports:** Many countries ban import of specific products. Shipping a prohibited good into a country can lead to fines and to a disappointed customer not receiving their order. These rules are constantly in flux, making it essential that online sellers stay on top of any changes.
3. **Registering with each country, obtaining tax numbers and filing regularly:** Sellers often are required to register with tax and customs authorities in each nation they ship to, and to file reports and remittances according to a set schedule. These rules vary by country. As with many of the compliance requirements of international trade, they pose the question for each seller of whether they want to create their own compliance department with extensive expertise or work with companies that specialize in this field.

4. **Informing customers of the correct customs duties and taxes on cross-border sales:** Online retailers can either collect applicable taxes and duties at checkout or shift the burden on the customer to pay when the item is delivered. The former, known as DDP (for Delivery Duty Paid), ensures no unwelcome surprises for shoppers when orders arrive. 63% of executives surveyed in the Avalara/Reuters survey in 2024 said they used DDP, up slightly from 61% a year earlier. And 42% said they show, or plan to show, the full landed costs even as customers are browsing, which can reduce cart abandonment. Showing the full landed cost requires an automated system that can fill in accurate data while the consumer is shopping. As more online retailers do that, it's what shoppers will increasingly expect.
5. **Prepare for peak season well in advance:** Deploying automated systems that can ensure compliance with cross-border regulations takes time and attention. It's not something a retailer wants to take on during its busiest sales period. Schedule this integration project for a slow period, and then you won't be caught short if, for example, a new tariff war erupts that impacts your shipments during your busiest period. An experienced specialist provider that regularly monitors customs duties can make the change and ensure your checkout page is accurate.

These may seem like daunting tasks. But 46% of executives surveyed in 2024 by Avalara and Reuters said the cross-border ecommerce environment is an easy space to operate in, up from 42% a year earlier. Perhaps that's because 46% outsource their compliance work, taking advantage of the experience and technology of companies that specialize in this arena.

The bottom line: *Companies that make the investment in compliance are reaping the rewards of the ongoing growth in cross-border online shopping. This report aims to help more retailers reap those gains.*

Introduction: The opportunity and challenge of cross-border sales

There never has been a better opportunity for retailers and brands to sell to online shoppers around the world. Nor have there ever been more regulatory challenges, with more on the horizon.

Underscoring the opportunity, **55% of online shoppers say they shop from websites in other countries**, according to a 23-country consumer survey by shipping service DHL. Consulting firm McKinsey's **bold scenario** is that cross-border ecommerce will grow to a $2 trillion market by 2030.

In response to this rapid growth, governments around the world are tightening regulations and stepping up enforcement. They aim to increase revenue from cross-border online purchases, protect domestic retailers and prevent the importation of dangerous products, such as the illegal drug fentanyl. These stricter policies impose new compliance requirements on online sellers.

Indications are there will be additional requirements and considerable volatility in tariffs and import rules in the years ahead. In campaigning for the U.S. presidency, Donald Trump promised to raise tariffs substantially to protect U.S. industries. Any such moves could well provoke retaliatory tariffs from other nations. Online sellers will have to **keep up with those changes** and make sure their goods are properly classified to avoid unnecessary problems.

Nor is the United States the only source of new hurdles. The European Union is phasing in tougher rules on cross-border shipments. And Brexit, the United Kingdom's exit from the EU, means online sellers must deal with new U.K. rules, while also adapting their handling of sales from the U.K. to Europe.

These regulatory hurdles can be overcome by retailers and brands that keep up with the latest rules. But cost-effective compliance requires technology that can handle the complexity of cross-border sales through automation, without relying on human beings poring over spreadsheets to insert the correct codes, customs duties and applicable taxes for each order.

This white paper aims to concisely summarize the state of the market, the challenges facing sellers and five strategies that can help retailers and brands profitably take advantage of the appetite of the world's online consumers for goods from other countries.

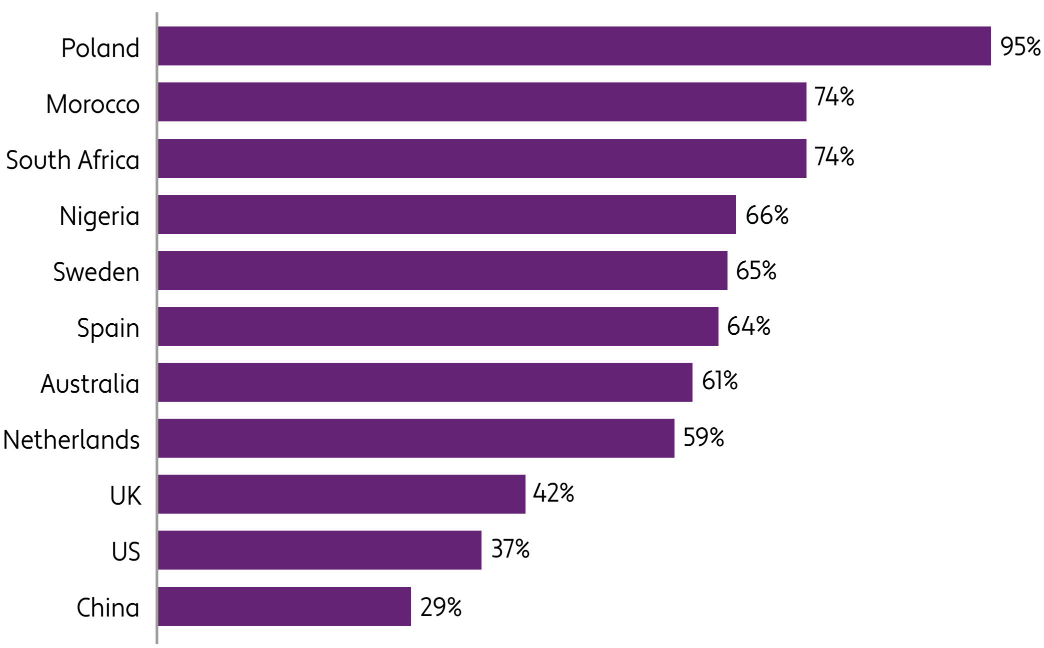
Consumer behavior and the retailer response

McKinsey's conservative estimate of cross-border ecommerce reaching $1 trillion by 2030, from $300 million in 2022, implies a compound annual growth rate of 16.2%. If the consulting firm's more optimistic projection of sales reaching as much as $2 trillion in 2030 comes to pass, that growth rate would rise to 26.8%. A separate analysis by **Vantage Market Research** projects annual growth of 25.1% through 2028.

As these projections suggest, many online shoppers are now comfortable purchasing from the websites for retailers and brands in other countries. But that willingness varies widely from one country to the next, with consumers in major economies with many local options less likely to shop cross-border than shoppers in markets where domestic choices are more limited.

A BIG VARIATION BY COUNTRY IN CROSS-BORDER SHOPPING

Percentage of online shoppers who purchase cross-border by country



Source: DHL survey of 12,000 online shoppers in 24 countries. 2024 data. Selected countries shown.

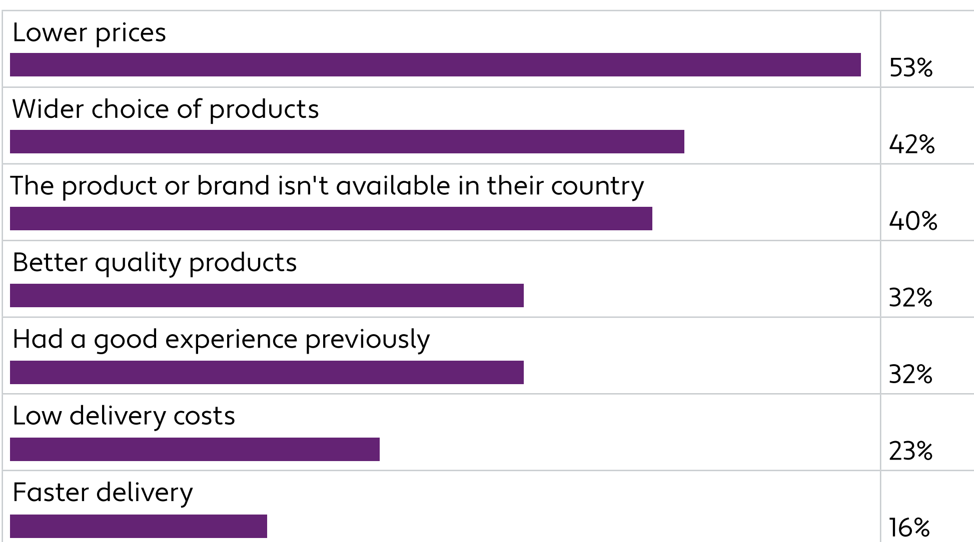
For example, 95% of consumers in Poland shop from foreign websites, as do 74% of shoppers in both South Africa and Morocco, according to the **2024 DHL survey of 12,000 online shoppers in 23 countries**. But that's true of only **37% of those in the United States** and **42% in the United Kingdom**.

Consumers shop cross-border primarily to get better prices and products not available in their home countries, the DHL survey found.

The goods they most often buy from international websites are apparel and footwear, followed by consumer electronics, according to both DHL and a 2023 survey of 32,510 consumers from 41 countries by the International Post Corporation, a consortium of global postal service operators[2].

PRICE AND SELECTION MOTIVATE CROSS-BORDER SHOPPERS

Why consumers choose to shop cross-border



Source: DHL survey of 12,000 online shoppers in 24 countries. 2024 data.

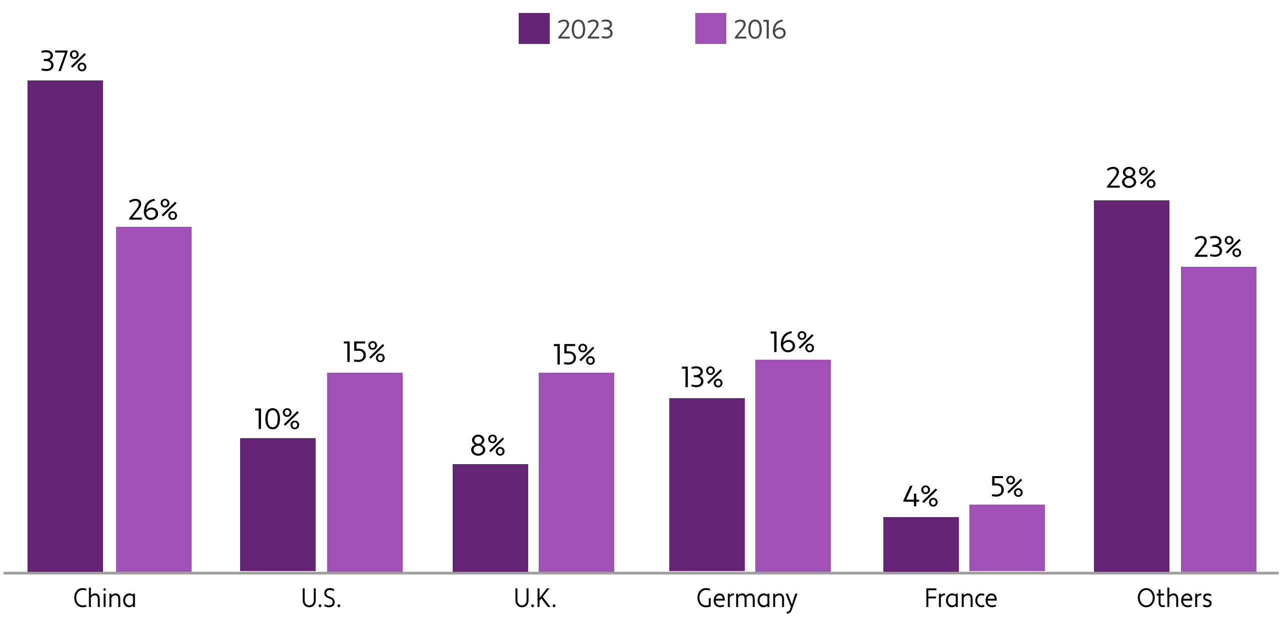
[2]International Post Corporation, Cross-Border E-Commerce Shopper Survey 2023, page 13

But those preferences vary widely by market. For instance, **while only 25% of all shoppers surveyed by DHL purchased cosmetics cross-border, that rose to 35% in China**, where there is widespread skepticism about the purity of local products.

37% of consumers surveyed by IPC said they made their most recent cross-border purchase from China, an increase from 26% in IPC's 2016 survey. Meanwhile other major countries, such as the U.S., U.K. and Germany have seen their market share fall. IPC attributes the recent surge in purchases from China to the rapid growth of Temu and Shein, whose ecommerce sites feature low-cost goods from China.

CHINA GAINS CROSS-BORDER MARKET SHARE

Country of most recent cross-border purchase



Source: International Post Corporation survey of 32,510 consumers in 41 countries. 2023 data.

Again, however, there are significant variations by market. Consumers in Canada and South Korea are most likely to buy from the U.S., those in Ireland and Iceland from the U.K. and Danish shoppers from Germany.

The retailer response to the cross-border opportunity

Despite the growing willingness of consumers to shop cross-border, many major retailers and brands choose not to serve overseas customers, according to an analysis by U.S. news and research organization Digital Commerce 360 of the Top 1000 North America-based retailers and consumer goods manufacturers by online sales.

Only 46.1% of those Top 1000 online sellers ship anywhere in Europe, and that percentage falls for other regions. More than a third of the U.S. companies in the Top 1000 don't even ship to either Canada or Mexico, despite their proximity to the U.S. and the lower regulatory barriers afforded by the USMCA trade pact.

For online retailers and brands, that means that many of the companies you compete with for domestic business are not vying for the business of international shoppers. That's a strong reason to consider cross-border shipping for companies not already selling to online consumers abroad.

FEWER THAN HALF OF NORTH AMERICA'S TOP ONLINE RETAILERS SHIP BEYOND THE REGION

Percentage of Digital Commerce 360 Top 1000 retailers shipping to each market

North America outside of U.S.	63.6%
Europe	46.4%
Asia/Pacific	45.5%
Middle East/Africa	39.5%
Latin America	38.1%

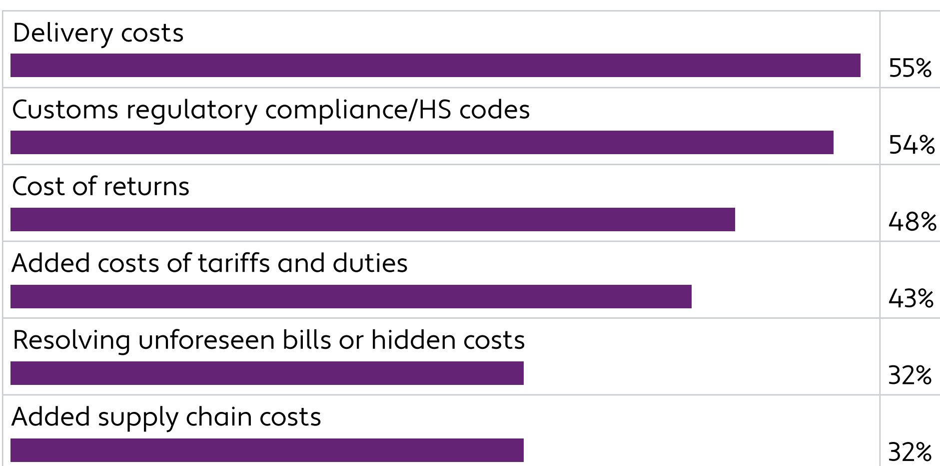
Source: Digital Commerce 360. 2023 data.

Why do so many leading online retailers shy away from the cross-border opportunity? A big reason are regulatory hurdles, including mastering the complexity of the many thousands of Harmonized Systems codes that the nations of the world use to describe various products. Dealing with customs and duties is also a major pain point. Some of these obstacles are beyond the scope of this white paper, including language, currency, delivery and customer service.

What we will focus on in the next section are the significant regulatory hurdles. They include, besides customs duties, local taxes and HS codes, the prospect of an uncertain cross-border environment during a period of heightened trade tensions.

DELIVERY COSTS AND COMPLIANCE ARE THE MAIN OBSTACLES TO CROSS-BORDER ECOMMERCE

What are the main challenges in completing cross-border ecommerce transactions?



Source: Reuters/Avalara survey of more than 200 supply chain professionals from retailers, manufacturers and logistics organizations. 2024 data.

Tariffs, trade tensions and tougher government enforcement

Every country has its own rules on what kinds of products it allows to be imported and how much it charges for customs duties and sales tax. Exporters have always had to deal with these complexities.

But the explosion in cross-border ecommerce is leading governments in many countries to tighten their rules, require more extensive documentation and to deploy new enforcement technology. Add in the prospect of higher tariffs and tit-for-tat bans on certain products coming from particular countries, and the challenges facing ecommerce managers only grow.

One big change is in the treatment of low-value purchases. Online retailers had it relatively easy for many years, as many countries allowed parcels of low value to cross their borders without inspection or imposition of duties or taxes. But these so-called de minimis rules are changing, and they may change even more in the near future.

What got the attention of customs officials and their governments was the sharp increase in the number of small parcels coming across their borders, largely a result of consumers purchasing from retail websites in other countries. U.S. Customs and Border Protection officials reported that they were seeing an average of **4 million de minimis packages entering the country every day** in late 2024, roughly 10 times the daily volume of 2015.

Allowing entry of all these packages without collecting duties or taxes means foregoing a lot of revenue. For example, the Swedish government estimated it was losing more than 100 million euros (about $120 million) each year by not taxing online orders crossing its border.

That realization played a big part in Sweden's decision in 2018 to impose sales tax on all parcels entering the country. Previously, the country's de minimis policy exempted from tax collection all packages valued at less than 1,300 Swedish krona (US$118).

What's more, domestic retailers were complaining they were at a disadvantage because they had to collect sales tax from Swedish shoppers whereas foreign ecommerce operators – such as sellers on Amazon marketplaces or China's AliExpress – could offer better prices by not charging tax.

Those two motivations of seeking more revenue and protecting domestic retailers have led other governments to also change their laws so they can tax more online orders. Australia, for example, had previously exempted imports valued at less than A$1,000. **Now the Australian government requires any foreign online retailer that sells at least A$75,000 a year to Australian consumers to collect and remit sales tax** on every parcel shipped into the country.

US proposals and enforcement technology

The United States went in the opposite direction in 2016, raising the de minimis threshold to $800 (per person, per day) from $200, thus increasing the number of parcels that could enter without paying duty or taxes. That change, combined with growth in cross-border online shopping, boosted the number of de minimis packages entering the **U.S. from 134 million in 2015 to more than 1 billion today**.

Two companies that specialize in selling online inexpensive goods from China, Temu and Shein, account for **30% of those low-value parcels entering the U.S.,** according to the U.S. House Select Committee on the Chinese Communist Party.

That massive increase in the number of low-value parcels, plus its role in making it easier for Chinese companies to sell inexpensive apparel, footwear and other items directly to U.S. online shoppers, have already led the U.S. government to modify its de minimis policy. And much more **significant changes are under discussion**.

One change that took effect in February 2024 requires importers to file information about incoming packages with U.S. Customs and Border Patrol before or at the time of the parcel's arrival at customs. Previously, importers could file that information up to 15 days after the parcel arrived.

The February 2024 change applied to de minimis imports that used **Entry Type 86**, an expedited customs entry type overseen by CBP. Less information is collected on these imports, and the documents required for Entry Type 86 must be filed electronically through CBP's **Automated Commercial Environment** (ACE) portal.

Type 86 imports are a subset of inbound parcels not subject to import duties under a provision of U.S. law known as Section 321. The difference is that Type 86 parcels are those subject to scrutiny by U.S. government agencies other than Customs and Border Patrol, because of quotas or health regulations. For example, imports of toothbrushes are subject to scrutiny by the Food and Drug Administration, and thus de minimis imports must use Type 86 procedures.

In September 2024, the administration of then-President Joe Biden proposed more stringent enforcement of rules requiring all Type 86 parcels to include the 10-digit Harmonized System (HS) code for entry into the U.S. HS codes are used by more than 200 countries. The international code for any product is six digits, and many countries, including the U.S. add an additional four digits for incoming products to gather more information. Some nations add six digits.

The Biden administration followed through in its closing days, proposing in January 2025 that all de minimis shipments, whether under Type 86 entry or Section 321, include additional data. That includes the 10-digit HTS code – the U.S. name for its 10-digit version of the applicable HS code – as well as such information as country of origin, name and address of buyer and seller, and "one data element that verifies the contents of the shipment, such as the URL of the product listing or a picture of the product."

These changes, if they become law after going through the required comment period and not reversed by the incoming administration of Donald Trump, would impose new requirements on at least some online retailers and their service providers.

While U.S. law already *requires* that some low-value entry methods include the 10-digit code, while other low-value entry forms only *prefer* one, not all importers were complying, says Shane Bogdan, Director of Cross-Border Sales at Avalara. “Not everyone is providing them, nor are they being classified accurately. In some instances, organizations may be just affixing random 4-digits (for example, 0000) to the end of a 6-digit HS code to make it the required 10-digit code.”

The Biden administration also proposed collecting more information about de minimis shipments, including on the individual claiming the exemption. Given that any person can only claim up to $800 in duty waivers per day, more information on the recipient could allow U.S. customs officials to detect instances of individuals, or companies, importing several low-value parcels each day and exceeding the $800 limit.

The policy proposal also suggested charging a fee for each de minimis parcel – $2 has been mentioned as a likely charge – to cover costs for processing these packages. Some apparel industry trade groups have proposed barring goods from China from qualifying for the de minimis exemption.

Trump threatens an end to de minimis shipments from China

Developments took a more dramatic turn once Donald Trump assumed the presidency in January 2025. Within weeks, the Trump administration declared an end to de minimis shipments from China and Hong Kong – a major source of low-value online orders – and then three days later paused that order to give the U.S. Postal Service, Customs and Border Patrol, importers, online sellers and others a chance to adapt to this sweeping change.

When and if that de minimis ban for Chinese imports will take effect remained uncertain when this report was finalized. But such a ban would have a major impact on retailers and marketplaces that source products from China.

Avalara has provided a **detailed summary** of how this change would impact online sellers. Essentially, it would prevent importers from bringing in products under the Type 86 rules that waive duties for parcels with a value less than $800.

Instead, importers would have to pay applicable duties as well as tariffs, including the additional 10% tariff on all goods from China that Trump imposed shortly after taking office. Those fees would have to be submitted to Customs and Border Patrol within 10 days of a parcel clearing customs.

For goods valued at less than $2,500, Entry Type 11 will be the best choice for many importers. But Entry Type 11 requires the importer of record to provide a considerable amount of information, including the proper Harmonized Tariff Schedule code for each item in an order. That information must be provided on CBP Form 7501 that must be filed electronically with the U.S. customs agency.

Providing that HTS code as well as accurately calculating duties and tariffs will be tricky for online sellers that have not had to provide that information in the past. The possibility that the easy entry of inexpensive items from China may soon go away underscores the value of working with a partner that provides automated calculation of import duties and tariffs and with experience in meeting the paperwork requirements imposed by the U.S. and other countries.

U.S. customs strengthens enforcement with new technology

Meanwhile, Customs and Border Patrol has been investing heavily in technology to help it better monitor the massive number of small parcels arriving from abroad.

At a Google-sponsored conference in the fall of 2024, Jay Alalasundaram, CBP's deputy assistant commissioner and chief software officer, described how the customs agency's use of a Google AI system to search across many data sources and analyze that aggregated data centrally "an absolute game-changer."

A U.S. customs official calls the government's use of AI to monitor inbound parcels **"an absolute game-changer."**

In another example of CBP's technology projects, the customs agency is using a variety of tools to examine parcels without opening them, to detect contraband, determine packages likely to need further inspection and spot products that appear not to conform to the HS codes used to describe them. Given AI's ability to process all this data much faster than humans can, systems like these figure to make it harder for importers to evade customs rules or improperly label goods.

"Big AI is going to be examining your data to make sure your descriptions are matching your codes, for example," says Patrick Frith, Senior Director of Global Trade at Avalara." What you have been doing may have been okay for the last 20 years, but there will be no place to hide soon."

New requirements for shipments to the European Union

A similar process of tightening rules and deploying advanced enforcement technology is going on elsewhere, including in the European Union and United Kingdom.

A big change took effect in 2021 when the EU stopped waiving value-added tax (VAT), which is similar to U.S. sales tax, on goods valued at 20 euros or less. That means retailers must collect VAT– typically around 20% in the EU although there are some variations by country– on all online orders shipped to consumers in the 27 EU member states.

Also in 2021, **the EU began a phased introduction of a new system called ICS2** that requires carriers, couriers, and postal services transporting goods through the EU to submit safety and security information to customs authorities prior to a shipment's arrival. This information is submitted in the form of an Entry Summary Declaration (ENS) that provides details of the goods entering the EU.

The new requirements came into force for mail and express shipments in 2021 and for parcels arriving by air in 2023. In 2024, ICS2 began applying to goods arriving by sea or inland waterways, and was scheduled to be enforced on goods carried by rail and truck in spring 2025.

> The European Union has **eliminated its low-value VAT exemption of 20 euros,** meaning online retailers will have to collect VAT on all online orders shipped to consumers in the EU's 27 member states.

While the carriers and delivery services are legally responsible for compliance, online retailers and brands utilizing those services will want to ensure their carriers follow these rules, lest their shipments get held up at customs or rejected.

Post-Brexit enforcement in the UK

The United Kingdom's departure from the EU has changed the rules for online sellers shipping to shoppers in that country.

Previously, the U.K. did not require collection of its value-added tax (VAT) for imported online purchases of under £135 GBP. With Brexit, the U.K. has eliminated that exemption and will require online retailers to collect and remit VAT on all orders shipped to the U.K. Online retailers selling to U.K. consumers will also be required to register and remit VAT collected on orders to the U.K. quarterly.

VAT is 20% on most items, so adding that tax amounts to a significant price increase for many U.K. online shoppers. The U.K. does, however, exempt packages with a total value of no more than £135 GBP (US$169) from import duties, a waiver that encourages cross-border online shopping. **52.5% of U.K. consumers buy from websites abroad,** according to an April 2024 survey by ecommerce technology provider Nosto.

Recognizing the high level of cross-border purchasing, the U.K. government surveys importers to gauge their proficiency in complying with import rules. The government considers certain responses "red flags" indicating that a company may not be able to comply and can subject that organization's imports to stricter scrutiny.

Among the red flags are a company lacking strong controls for accurately reporting classifications to customs, relying on a single employee to handle classifications, poor staff knowledge of classification requirements and high turnover in key positions.

[3] *Avalara webinar presentation: Revolutionising Global Trade: Embrace Digital Transformation and Navigate New Challenges.*

The government also makes clear that companies engaging in cross-border trade bear the responsibility for complying with applicable laws.

"As the importer or exporter of record, you are legally responsible for correctly classifying your goods," the U.K. Customs Code states. "This applies even if you employ an agent to handle your customers' entries on your behalf."[3]

The U.K. government has made clear that **the importer or exporter of record is legally responsible for classifying goods**, even if it uses an agent to handle inbound parcels.

Bottom line: *Governments all across the world are getting tougher on enforcing rules regarding cross-border online orders. That means online retailers and brands have to get better at compliance. The next section describes five ways to do that.*

Five keys to success in global ecommerce:

1. Properly classifying goods for import

Retailers selling cross-border must master the country-specific Harmonized System codes that identify the products being shipped. A code that's missing, incorrect or only partially filled in can lead to a parcel being rejected, held up at customs or charged a higher duty than necessary. Correctly assigning these codes is especially important now, both because many governments are stepping up scrutiny and new tariffs could change the duties on specific goods in unanticipated ways.

To ensure packages pass customs easily and reach the customer in a timely way, cross-border sellers must use the proper Harmonized System code describing what's in each package. HS codes are administered by the World Customs Organization and used by more than 200 countries.

There are some **5,000 commodity categories of 6-digit HS codes** used by all countries. But there are many thousands more codes, given that many nations append between four and six digits to the standard code. Sellers must attach the proper code for each country to ensure smooth customs clearance.

Avalara provides a detailed summary in **"The Ultimate Guide to HS Code Classification."** We'll highlight some of the main points below. The U.K. and the U.S. use 10-digit codes and Japan uses a nine-digit code, for example. There are also different names for these codes, with the U.S. calling them "HTS" codes while in the EU they're referred to as "TARIC" codes. To add further confusion, the U.S. government calls the codes required on outbound shipments Schedule B codes; these are sometimes, but not always identical to the U.S. HTS codes for inbound products.

Many retailers make the mistake of using the same code for every country, which can result in paying higher tariffs than necessary. If a retailer assigns the generic six-digit code to a product instead of the 8- to 12-digit code the country requires, the carrier will assign it to the highest tariff level.

Understanding the codes

HS codes: Six-digit codes for classifying items used by more than 200 countries

HTS codes: The U.S. government version of HS codes that adds four digits to the HS code. Used for goods imported into the U.S.

Schedule B codes: The counterpart of HTS codes for goods being exported from the U.S. While also 10-digit codes, Schedule B codes are not always identical to HTS codes.

In one real-world example, a U.S. bicycle manufacturer paid tens of thousands of dollars in extra import duties because the company's supplier in Vietnam used the wrong code on the documents that accompanied its shipments to the U.S. The manufacturer engaged Avalara, which corrected the error, reducing the import duties sharply. And the bike maker was able to recover some of its overpayments.

There are many HS codes because each one can describe a product in great detail. Is the dress made of cotton or silk? Does the hem drop below the knee? Many seemingly slight changes in a product can require a different code and therefore a different duty tariff.

Getting the HS code right is important because it determines the tariff and taxes that may be charged: A particular country may charge a 30% tariff on silk blouses but only 5% on cotton blouses. And if the import documents use a 6-digit HS code that's open to interpretation, such as a generic code for women's blouses, the customs agency will invariably charge the highest tariff.

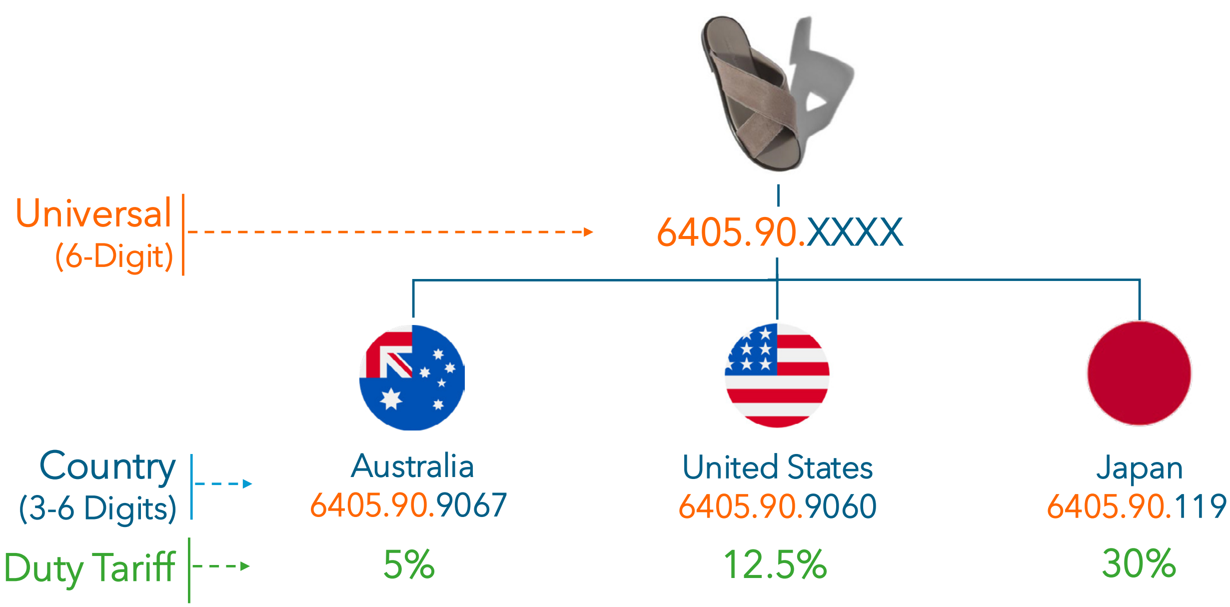
Sandals are another example of a common product that is subject to widely variable duties by country: 30% in Japan, but only 5% in Australia. Correctly applying each country's code is crucial to expediting customs clearance and obtaining the most favorable duty treatment.

Relying on a freight forwarder – or in the case of the bicycle maker, its supplier – to fill out the customs documents can lead to expensive errors.

Getting the HS code right is important because a country may charge a 30% tariff on silk blouses but only 5% on cotton blouses. **When in doubt, the customs agency will charge the highest tariff.**

HS CODES ARE COUNTRY-SPECIFIC

Unlike AvaTax tax codes, HS codes are not universal — they vary by country



Disclaimer: Tariff rates are accurate as of May 2024 and are for illustrative purposes only.

New and complex products

Certain products can be especially complex to import. For example, importing a luxury watch into certain countries may require separate HS codes for the watch itself, its strap, and its battery.

And then there are new products. When the Fitbit came along, some countries classified it as a health product and others as a fitness item. Similarly, drones can be categorized in many ways, and it's important for drone retailers to get the HS code right for each country they're selling into.

Not only can mistakes lead to paying higher tariffs, but they can also lead to underpaying customs duties or taxes. Underpaying can be a painful mistake, as governments can typically go back seven years to collect unpaid duties and taxes.

New tariffs

Cross-border sellers must also be ready to respond to new tariffs that change the duty charged on certain products. While politicians may threaten to raise tariffs across-the-board on goods from a certain country, in fact the new duties are often more targeted.

For example, when the U.S. imposed new tariffs on Chinese goods during the first administration of President Donald Trump, it only affected goods covered by 3,000 out of 21,000 applicable HS codes, says Frith of Avalara. “If you don't know your HS codes you can't hope to know if your products are going to be affected by the tariff change,” he says. And that can affect how a retailer prices and markets its products.

How Avalara helps: ***Avalara*** *maintains a comprehensive database of country-specific HS codes. It sources its information directly from the customs agencies of each country and regularly updates the database so that customers don't have to take on that responsibility.*

2. Understanding national restrictions on imports

Each country makes its own rules on which products can be brought into the country, and they vary considerably from one to another.

For example, India bans parcels containing drones and e-cigarettes. You can't ship most knives into Japan, or jewelry valued at over $500. Germany bans imports of lithium batteries, as well as the dietary supplement melatonin.

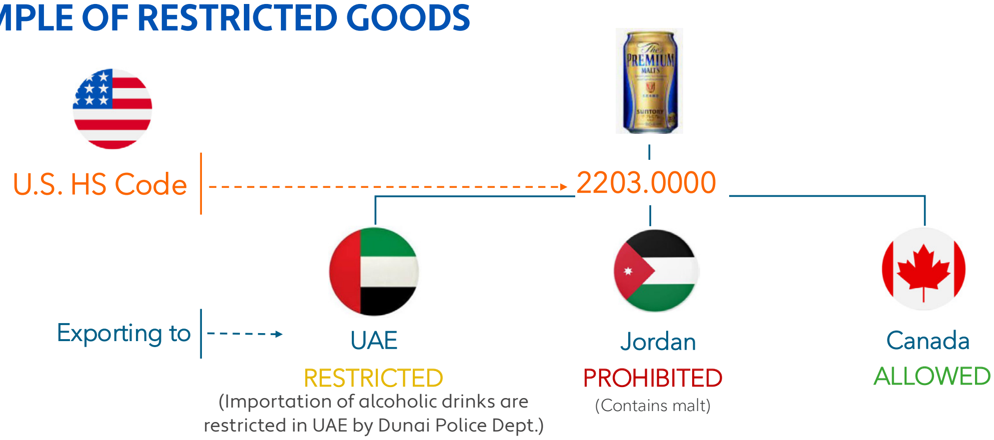
If customs officials spot prohibited items in imported parcels, they will likely seize the products and could impose fines. In any case, the consumer who made the purchase is sure to be disappointed.

Some online retailers automatically detect the IP address of visitors to their sites and only display items that can be shipped into the shopper's country. That's a best practice, as it helps to ensure the consumer won't be disappointed, but it requires the online retailer to have accurate information about which products are prohibited by which countries.

That may be harder to do at a time of increasing trade tensions. For example, the United States, in responses to reports of forced labor, has **banned imports of any goods manufactured in China's Xinjiang region**, a major source of apparel. China has responded with restrictions on imports of some U.S. technology.

Alcoholic beverages are another category of product for which national rules vary widely.

EXAMPLE OF RESTRICTED GOODS



Disclaimer: Tariff rates are accurate as of May 2024 and are for illustrative purposes only.

Knowing specifically which products can and cannot be sent into all the countries of the world is a big job, and one few retailers are equipped to handle, especially at a time when restrictions may change rapidly.

How Avalara helps: *Avalara Trade Restrictions Management* *leverages an extensive database of regularly updated trade restrictions to help maintain compliance with changing global standards. It helps online sellers reduce costs, focus their efforts on profitable transactions, and deliver a superior customer experience.*

3. Registering with each country, obtaining tax numbers and filing regularly

Stuart Cohen thought he could handle filing for a tax ID in the U.K. on his own. “You can do it online, it’s in English, and it’s only eight lines, so I thought I’d take a run at it,” says Cohen, founder of Invisible World, a U.S.-based online retailer of apparel such as alpaca sweaters from South America and cashmere garments from China.

“It quickly became a mess – and that was in English,” he says. “If you’re going to sell in other countries you need someone to help you.”

Cohen engaged an accounting firm to help him remit taxes and file needed documents in the seven European countries where he sells – and ran into numerous problems. For example, it took a year to get registered in Spain, which led to a fine of more than 1,000 euros for not filing tax documents on time.

But the biggest problem was in Germany. His accounting firm filed required monthly and quarterly reports but neglected to file a required annual report. That, and other factors, led the government to notify Invisible World that it owed more than 25,000 euros in back taxes and fines – Cohen says in the end it turned out he owed 1,800 – and it quickly notified marketplaces like Amazon that the retailer was not in compliance.

One such complaint from the German tax authorities led to Invisible World being kicked off Amazon's German marketplace for several weeks and another blocked the retailer from all of Amazon's marketplaces for 13 days. "It can definitely happen," he says.

And resolving these problems isn't easy. The German government sent a letter in German that was in the form of an image, which meant Cohen couldn't copy the text into an online translation tool to understand what it said. Cohen says he spent more than 100 hours resolving his problems in Germany, and that dealing with foreign tax authorities is always difficult.

"You'll spend dozens or hundreds of hours straightening out problems with people who don't answer the phone, aren't in your time zone, and don't speak English," he says.

As Invisible World found, just registering and filing properly can be challenging. Many countries require online retailers shipping to their residents to get a tax ID number so they can remit sales taxes or VAT. In addition, a retailer selling to consumers in the European Union has to obtain an EORI number – that stands for Economic Operators Registration and Identification number – to do business in the EU.

Then there are the requirements for filing, which vary by country in terms of timing and what information must be provided. Those are daunting tasks for those without large compliance departments well versed in the requirements of all the countries a company ships to.

How Avalara helps: ***Avalara*** *provides customers with detailed assistance on how to register and helps retailers file necessary tax documents and remittances on time to avoid penalties. That allows retailers to manage these tasks internally, and not rely on other companies who may make costly mistakes.*

Resolving filing issues can be a nightmare.
"You'll spend dozens or hundreds of hours straightening out problems with people who don't answer the phone, aren't in your time zone, and don't speak English," says Stuart Cohen, founder of online retailer Invisible World.

4. Informing customers of the correct customs duties and taxes on cross-border sales

An important decision for each retailer selling across borders is whether to collect applicable duties and taxes on a website's checkout page, or leave it to the shopper to pay those fees when the package is delivered. How retailers handle this choice is evolving.

Before governments began paying such close attention to cross-border online shopping, many retailers and consumers took their chances. Frequently, the retailer would not collect duties and taxes, and shoppers hoped the parcel would escape inspection and they would avoid paying those fees.

But as customs enforcement became stricter, more cross-border shoppers found themselves facing demands from their own governments for payment of duty and tax when the parcel arrived – which led many shoppers to refuse the parcel or at least complain to the retailer. Clearly, it was not an excellent customer experience.

This has prompted more and more web merchants to collect duty and tax when the customer checks out on the ecommerce site so the customer need not pay anything when the parcel arrives. This option is called **DDP**, Delivered Duty Paid, in international shipping jargon. The alternative of leaving it to the recipient to pay is known as DAP, Delivered at Place.

63% of supply chain professionals, including those from retailers and manufacturers, said they were displaying total landed costs, including duties and taxes, at checkout **in a 2024 survey by Reuters and Avalara**, an increase from 61% the year before.

What's more 42% said they showed the total cost the shopper would pay while the consumer is browsing and before checkout. Those that did said they mainly wanted to provide a transparent customer experience (94%) and reduce cart abandonment (61%), though 21% said they were doing it because competitors already were.

A better customer experience

It's no surprise many online retailers would collect applicable duties and taxes on the checkout page, because that ensures the customer will not be unpleasantly surprised by a delivery driver demanding additional fees when the package arrives.

The alternative of not collecting duties and taxes up front could lead to an angry customer calling customer service to complain and ultimately refusing the delivery. But many companies take that risk – and pay the price, as shown in a **2024 Avalara survey of consumers and businesses**.

Nearly three-quarters of the companies surveyed rely on the Delivered at Place method of requiring recipients to pay duties upon delivery, including 30% that use DAP exclusively, despite customers making clear that this is a big pain point for them.

Of the consumers surveyed, 58% reported unexpected customs duties charges upon receipt of their goods, with half of those buying cross-border describing those costs as "shocking." 49% said they refused the parcel and 75% agreed they would reconsider shopping with that retailer after such an experience.

"The disconnect between seller practices and shopper expectations leading to hidden costs can damage the cross-border commerce experience," says Craig Reed, General Manager, Cross Border at Avalara. "In an era where international ecommerce is becoming increasingly prevalent, especially among younger consumers, businesses that fail to adapt risk being left behind. Solutions that support international growth and deliver a superior customer experience are key to building a business fit for the modern, borderless digital economy." While DDP is increasingly viewed as a best practice, it requires online sellers to have accurate, up-to-date information on applicable duties and taxes for all the products it sells and for all markets it sells to. That's not a core competency of many retail organizations.

How Avalara helps: *For an online retailer to* ***include duties and taxes on the checkout page*** *it must have accurate data and rates for every country it ships to, and it must know the correct HS code to use to get the correct tariff. Avalara regularly updates its content data related to those fees with information directly from governments around the world. And it has large, dedicated teams of researchers and engineers who create stable pipelines of content and make that content machine readable for Avalara's rate engines.*

If a retailer doesn't have an HS code, it can still offer a DDP shipping experience using Avalara Cross-Border Estimated. With just an item description and the ship-from and ship-to locations, Cross-Border Estimated will access Avalara's HS code library to assign the best match to estimate the customs and duties owed.

5. Prepare for peak season well in advance

For many retailers and consumer goods manufacturers, a successful winter holiday season is crucial for a profitable year. It's a time when companies want to focus on marketing and customer service – not dealing with the complexities of customs duties, local taxes and national rules on restricted imports.

For that reason, it's important that online sellers early in the year properly classify all their products and establish a relationship with a partner that can accurately calculate duties and taxes and provide guidance on tax registration and filing.

"Get your solutions in place during the first half of the year, so you have everything ready when you're dealing with your peak season," says Patrick Frith of Avalara.

That's particularly important during a period when a trade war could lead the tariffs on a retailer's products to change suddenly in the middle of peak season. The ideal scenario for the retailer is to be connected to a system that will recognize that change and automatically fill in the correct charges on subsequent orders.

"Get your solutions in place during the first half of the year, so you have everything ready when you're dealing with your peak season."

How Avalara helps: ***Avalara*** *regularly monitors changes in tariffs and sales and VAT taxes, and automatically implements those changes to its system. "Change is coming," Frith says. "Get plugged in to us early so you're ready for it."*

CONCLUSION: THE OPPORTUNITY IS BIG, BUT THIS IS NO GAME FOR AMATEURS

This is a great time for a retailer or consumer brand to sell cross-border – if the company takes the manageable steps to handle tax and customs compliance.

The opportunity is great for two reasons. First, consumers all over the world are increasingly comfortable buying from websites in other countries. Second, many retailers and brands don't compete for the business of these international shoppers, reducing the competition for those that do.

But there are obstacles and decisions to make on how to handle them. An important choice for retailers selling internationally is how to handle compliance.

One option is to rely on companies that claim to handle all the challenges of cross-border sales, including shipping, customs clearance, customer service, and taxes. While that sounds simple, few companies can truly be experts in all those areas, each of which requires deep and specific knowledge. In fact, many of the companies that offer all-inclusive services resell other firms' offerings, making it harder for a retailer to ensure it is getting the service it requires and adding dramatically to the costs the retailer pays.

A second option is to rely on best-of-breed companies to handle each of the major tasks associated with cross-border ecommerce, including **tax and customs compliance**.

When cross-border sales were a small part of many companies' business, getting first-rate service in all areas of international online sales may not have been as crucial. But as those global sales become a more significant part of their business, the stakes get higher.

With cross-border online sales now exceeding $1 trillion, the stakes are high indeed. Success will require competence in all phases of global ecommerce. That includes minimizing costs and maximizing customer satisfaction by excelling at the management of cross-border taxes and duties, as well as competently handling tax registration and filing.

When cross-border sales were a small part of many companies' business, **getting first-rate service in all areas of international online sales** may not have been as crucial as it is today, when international sales are surging.

Avalara

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 or estimation 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.

ABOUT AVALARA

Avalara makes tax compliance faster, easier, more accurate, and more reliable for 41,000+ business and government customers in over 75 countries. Tax compliance automation software solutions from Avalara leverage 1,200+ signed partner integrations across leading ecommerce, ERP, and other billing systems to power tax calculations, document management, tax return filing, and tax content access. Visit **avalara.com** to improve your compliance journey.