

Like love, taxes make people do the strangest things

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Tariff engineering is the study of how to make small changes to a product in order to achieve a more favorable tariff classification. Here are some great moments in tariff engineering:

Converse sneakers have small pieces of felt on the sole in order to be classified as slippers rather than sneakers and enjoy a 3% tariff rather than 37.5% upon import into the United States.

Marvel successfully argued in the United States that X-Men action figures are non-human, which means that they are subject to a lower tariff than for dolls. Of course, this argument completely flies in the face of the entire story line of the X-Men, who struggle to be recognized as human!

In the U.K., Pringles unsuccessfully argued that their products are not potato chips. This is another case of a company taking a tariff position that contradicts their own product's principles.

Canadian pizza restaurant chain Pizza Pizza circumvented the high tariff on imported cheese by repackaging mozzarella as pizza topping kits, thereby allowing them to be classified as "food preparations" and enter the country duty-free. This loophole pit the Canadian Dairy Commission against the Canadian Restaurant and Foodservices Association, and the Canadian Dairy Commission won: The rule was changed so that fresh cheese is always taxed as cheese, even if packaged as part of something else.

If your Santa costume has a zipper, it is classified as clothing, taxed at around 30%. But if you replace the zipper with a Velcro-type fastener, then it's considered a festive article and is duty-free.

The automobile industry has come up with a variety of workarounds for the so-called chicken tax, which imposes a 25% tariff on commercial trucks and vans arriving in the United States. Dodge works around it by taking the finished product, disassembling it, shipping the parts to the United States, then reassembling it. Ford's solution is to produce a passenger car, and then on arrival in the United States, remove the seats and windows. (This may explain why you see paneled vans with window cutouts in the cargo area.) I remember when they came up

with this solution because their press release was very proud of the fact that they were now sending the never-used seats and windows to a recycling center instead of just throwing them away like they had been before.

One of the longer sagas of tariff engineering (and in fact the case that introduced me to the concept) is the case of *Heartland vs. The United States Beet Sugar Association*, which I'll save for next time.

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