

**U.S. Customs and Border Protection
Office of Strategic Trade
Regulatory Audit Division**

**A Guide for Supporting Generalized System of
Preferences (GSP) Claims**

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A Guide for Supporting GSP Claims

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Introduction

In March 2003, the U.S. Customs Service became part of the U.S. Customs and Border Protection, which will continue to be referenced as Customs in this document.

The Generalized System of Preferences (GSP) is a program that provides duty-free treatment for products of developing countries, called beneficiary developing countries (BDCs). The list of designated countries, territories, and association of countries can be found in General Note 4 of the Harmonized Tariff Schedule of the United States (Annotated) (HTSUS). GSP is both country and product specific. Section 10.176 of the Customs Regulations states that to be eligible for GSP, the imported article must be the growth, product, or manufacture of the BDC. However, duty-free entry under GSP may be accorded only if the sum of (1) the cost or value of the materials produced in the BDC plus (2) the direct costs of processing operations performed in the BDC is not less than 35 percent of the appraised value of the merchandise.

BDCs are generally considered as a single country or territory, and all GSP requirements must be met in the one country. However, certain associations of countries are treated as one country. In the case of an association of countries, GSP requirements can be met in any of the countries within the association.

Generally, the specific statutory and regulatory requirements for claiming GSP are as follows:

- The country must be eligible as defined in General Note 4 of the HTSUS.
- Eligible articles shall be imported directly from the BDC in which they were produced to qualify for treatment under GSP.
- Merchandise must be grown, produced, or manufactured in a BDC. Materials that originate in another country must be substantially transformed in the BDC for the merchandise to be considered a "product of" the BDC.

Refer to Appendix I for definitions of specific terms used throughout this guide.

Information Sources/References

Following is a list of sources of information and/or references to regulations and rulings that affect the GSP area.

- GSP statutes and regulatory requirements are set forth in Title V of the Trade Act of 1974 (19 U.S.C. 2461-2465), as amended by the Customs and Trade Act of 1990, and in 19 Code of Federal Regulations (CFR) 10.171 through 10.178.
- Country of Origin Requirements: 19 CFR 10.176(a) and 10.176.
- Substantial Transformation Rule: 19 CFR 10.177(a)(2).
- No article will be considered to have been grown, produced, or manufactured in a BDC by virtue of having merely undergone simple (as opposed to complex or meaningful) combining or packaging operations or mere dilution with water or mere dilution with

another substance that does not materially alter the characteristics of the article: 19 CFR 10.176.

- "Double Substantial Transformation": Customs Service Decision (C.S.D.) 85-25 explains the application of 19 CFR 10.177 and partly overrules Treasury Decision (T.D.) 76-100, which was the basis for the so-called "double substantial transformation" rule. This rule has been applied since the inception of the GSP program and received explicit judicial approval (764F.2d 1563, 3 CAFC 158, 163 (Fed. Cir 1985)).
- Value Requirement: 19 CFR 10.176 through 10.178.
- The Trade and Development Act of 2000 amended the GSP to extend some enhanced benefits to sub-Saharan African countries. This is contained in new section 19 CFR 10.178a.
- Direct Importation Requirement: 19 CFR 10.174 and 10.175.
- Documentation and supporting records: 19 CFR 10.173 and T.D. 94-47. Additional documentation, including a foreign commercial invoice, can be required to verify that the merchandise qualifies for duty-free GSP treatment (C.S.D. 89-55).
- Unallowable general and administrative expenses (i.e., not direct costs of processing): HQ ruling 557087, dated 7/22/93; T.D. 81-282; T.D. 78-399; and C.S.D. 80-208.
- Dual sourcing of material (i.e., material from BDC and nonqualifying country): HQ ruling 556193, dated 12/23/91.
- Recordkeeping requirements for GSP records are outlined in 19 CFR 10.171 through 10.178. These documents shall be submitted within 60 days of the date of the request or such additional period that may be allowed for good cause shown. The Focused Assessment (FA) team may request records directly from the foreign vendor in accordance with 19 CFR 10.173 (a)(1)(i).

Focused Assessment Objectives

One of the first steps that the FA team takes is to determine whether the importer claimed any GSP during the review period. If there was no activity, then a GSP review is not necessary.

When GSP is applicable, it is essential that a good system of internal controls be in place to ensure ongoing compliance with GSP requirements. Focused assessments involve a review of the importer's GSP policies and procedures. The FA team assessment of internal controls consists of two parts: an understanding of the GSP internal control system and an evaluation of how accurately the system processes information. There are several questions importers could ask themselves regarding the controls in place to ensure that their claims qualify for GSP:

- What do I need to do to ensure that articles claimed for GSP are the growth, product, manufacture, or assembly of the BDC or any two or more countries that are members of the same association of countries?
- What assurance do I have that the supplier's value information is complete and accurate to support the GSP claim?
- Am I sure that the manufacturer(s) can provide proof of eligibility and all the required declarations at the time of purchase?
- When was the last time I assessed my GSP policies and procedures to ensure that they were accurate, in compliance with Customs rules and regulations, and working properly?
- Am I sure that the appropriate employees are receiving all updates on Customs laws, regulations, and rulings on GSP?
- In cases where an article claimed for GSP contains components from other than an eligible BDC, am I tracking the value of components separately for both the BDC and the other countries? Do I have access to the bills of materials for both types of components?

- Is an employee who possesses accurate and current knowledge reviewing GSP imports?
- Do I have the proper linking of GSP records as outlined in 19 CFR 10.171 through 10.178 to financial and accounting systems?

Regulatory Audit Policy (When Does Regulatory Audit Perform GSP Reviews?)

On July 23, 1997, U.S. Customs Service, Regulatory Audit Division, established policy for assessing compliance with respect to trade agreements. This policy established trade agreements as a priority issue in the 1997 Trade Enforcement Plan.

Prior to this policy, these trade programs were reviewed as separate audits or as part of the importer audit program. Regulatory Audit began including reviews of trade agreements as part of the Compliance Assessment process starting after October 1, 1997, and continued this practice in the subsequent FA process.

In the Pre-Assessment Survey (PAS) phase of the FA process, the FA team will evaluate the risk to Customs that the company's importing process relating to GSP may result in significant noncompliance with laws and regulations. If unacceptable risks are identified, the FA team will determine whether additional tests are required to quantify the extent of compliance and/or lost revenue.

Possible Sampling Frames

If it is determined that additional tests are required, the FA team may select its sample from the Automated Commercial System (ACS) or importer data, such as a database of GSP parts. The best method to efficiently determine the extent of compliance or loss of revenue should be used.

The FA team will focus on reviewing the accounting and inventory records, which support the ordering, manufacturing or production process, purchase, and shipment needed to support GSP eligibility of imported articles. If appropriate, the auditor will request and receive access to pertinent foreign accounting and inventory records and documentation.

If GSP internal controls are found to pose an unacceptable risk to Customs and/or if the compliance rate falls below 99 percent, GSP is considered noncompliant and the company will be requested to implement a Compliance Improvement Plan (CIP). As always, the FA team will discuss the conclusions with the company officials and obtain comments.

Responsibility for Support of Claims

In a case involving merchandise covered by a formal entry that is not wholly the growth, product, or manufacture of a single BDC, the exporter of the merchandise or other appropriate party having knowledge of the relevant facts shall be prepared to submit directly to the port director, upon request, a declaration setting forth all pertinent detailed information concerning the production or manufacture of the merchandise. *19 CFR 10.173(a)(1)(i)*

The information necessary for preparation of the declaration shall be retained in the files of the party responsible for its preparation and submission for 5 years. In the event that the port director requests submission of the declaration during the 5-year period, it shall be submitted by the appropriate party directly to the port director within 60 days of the date of the request or such additional period as the port director may allow for good cause shown. Failure to submit the declaration in a timely fashion will result in a denial of duty-free treatment. *19 CFR*

10.173(a)(1)(ii)

In developing detailed steps for verification of GSP entries, the GSP regulations require both

the U.S. importer and the BDC exporter to maintain certain information and documentation to substantiate GSP claims. Therefore, an examination of financial books, records, and documentation kept in the BDC may be necessary. As early in the audit as possible, auditors should request initial supporting documents in order to expedite the process. If the unrelated exporter is reluctant to provide the records to the importer, the exporter may be instructed to send the records directly to the FA team.

It will be presumed that the importer's claim for GSP cannot be supported if (1) the importer is unable to provide required supporting documentation within a reasonable time; and/or (2) the foreign producer refuses to provide, or is legally prevented from providing, that information. Any evidence submitted under Section 10.173 shall be subject to such verification as the port director deems necessary. In the event that the port director is prevented from obtaining the necessary verification, the port director may treat the entry as dutiable.

Support Needed for Claims

The importer should establish and implement a system of internal controls that demonstrate that reasonable care was exercised in the claim for duty-free treatment under GSP. These controls should include tests to ensure the accuracy and availability of records that evidence (1) the origin of the article when the imported article is wholly the growth, product, or manufacture of the BDC; or (2) the cost or value of the materials produced in a BDC, plus the direct processing costs in a BDC, is not less than 35 percent of the appraised value of the article at the time of its entry into the United States; and (3) that the article was imported into the United States directly from the BDC.

If the origin of the imported article is wholly the growth, product, or manufacture of a single BDC, then a statement to that effect shall be included on the commercial invoice provided to Customs. However, if the article is made from materials imported into the BDC, then the port director may require a GSP declaration to be prepared.

The GSP declaration identifies the following information:

1. number and date of invoice;
2. description of articles and quantity;
3. if processing operations are performed on articles:
 - (a) description of processing operations and country of processing, and
 - (b) direct costs of processing operations;
4. if materials are produced in a BDC or members of the same association, then:
 - (a) description of material, production process, and country of production, and
 - (b) cost or value of materials.

The origin of articles that are wholly the growth, product, or manufacture of the BDC must be supported by documents obtainable by the importer. The supporting documents may include trip reports, site visits, quality assurance reports, health and safety certificates prepared by government officials, and origin certificates prepared by government officials. Articles that are the product or manufacture of the BDC may require additional evidence to substantiate the manufacturing origin. Evidence may include raw materials purchases, proof of factory labor, and

support for manufacturing overhead.

The 35 percent value-content requirement may necessitate the submission of additional evidence of foreign manufacturing costs. Evidence may include product specifications, bills of materials, product cost sheets, payment records, overhead allocation schedules, raw material purchases, proof of factory labor, and support for manufacturing overhead. Production records must establish the value of the BDC materials used in the imported article on a lot-by-lot, batch-by-batch, shipment-by-shipment basis. Documentation and records supporting GSP must be verifiable by linkage to inventory and accounting records including summary records such as monthly production reports and accounts payable records.

Materials imported into a BDC may be included toward the value-content requirement when they undergo a double substantial transformation. In determining whether the value of a material may be counted toward the GSP 35 percent value-content requirement, a distinction must be made between the imported article and the materials of which it is composed. In the case of imported materials, the value of the material may be counted only if the imported material is first substantially transformed into a new and different article of commerce and then used in the BDC to produce the article imported into the United States. The importer's internal control system should include tests to accumulate such information to substantiate that a double substantial transformation occurred. Evidence may include flowcharts and videos of the manufacturing process, product design specifications, bills of materials, product cost sheets, overhead allocation schedules, raw material purchases, proof of factory labor, payment records, and support for manufacturing overhead.

The direct shipment to the United States should be supported by documents obtainable by the importer's internal control system. If a shipment from a BDC passes through the territory of any other country en route to the United States, the merchandise must not enter the commerce of the transient country. Documents supporting direct shipment may include bills of lading, freight or shipping invoices, and air waybills which show the United States as the final destination.

Appendix II identifies those costs of processing operations that are considered direct and those that are considered indirect and therefore not allowable when considering the value content requirement. Appendix III includes examples of source records that may support various cost categories. These lists are not all-inclusive. Importers may maintain different documents to support their claim. Documents used to support their claims depend upon the company's account and inventory systems.

Common Importer Errors Identified

Since 1997, compliance assessments, which included a separate GSP sample (exceeded the \$10 million dollar threshold), have shown that a significant number of companies have been considered noncompliant. Some of the most common errors identified include the following:

- Imported product did not undergo a double substantial transformation.
- Company was unable to produce records to support value-content provision.
- CBI countries are also GSP countries. Importer may claim GSP or CBI.
- Foreign manufacturer commingled materials purchased from both BDC and non-BDC suppliers and importer is unable to identify when non-BDC components were used in an imported article.
- U.S. goods returned were claimed as imported GSP articles.
- GSP articles were erroneously classified, and the correct classification was not eligible for GSP.
- Articles originated in an ineligible country.

- Importer could not provide evidence of direct shipment of the product from the BDC to the United States when the shipment entered a transient country en route to the United States.

Appendix I

Glossary of Terms

Association of Countries--A voluntary association of countries, as identified in the HTSUS, treated as one country for purposes of GSP.

Beneficiary Developing Country (BDC)--Country eligible for duty-free treatment under the GSP, as identified in the HTSUS.

Bill of Materials (BOM)--A list of parts included in a finished product, normally listing the part number, quantity, and cost of each component, in part number order.

Certificate of Origin (Manufacturer's Affidavit)--A written statement signed by a company officer attesting to the country in which the product was manufactured.

Country of Origin--The country of manufacture, production, or growth of any article of foreign origin entering the United States; consisting of the country in which the last "substantial transformation" of the product was effected.

Direct Costs of Processing--Those costs either directly incurred in or which can be reasonably allocated to the growth, production, manufacture, or assembly of the specific merchandise under consideration; not including profit and general expenses such as administrative salaries and marketing expenses.

Double Substantial Transformation--Material from outside the BDC which is substantially transformed in the BDC into a new and different article of commerce which is then used in the production of the final imported item.

Dual Sourcing--Sourcing the same material component from both qualifying and nonqualifying countries; the qualifying material becomes ineligible if commingled in inventory with nonqualifying material.

General and Administrative Costs--Costs that cannot be allocated to individual products and are instead usually allocated to all products over a "cost input base" consisting of total costs for material, labor, and overhead.

General System of Preference (GSP)--A program authorized by the Trade Act of 1974 to provide duty-free treatment for eligible articles imported directly from designated BDCs. Duty-free treatment under the GSP may be accorded to eligible articles that are the growth, product, manufacture, or assembly of a BDC country; imported into the territory of the United States directly from such BDC if the sum of (1) the cost or value of the materials produced in the BDC or any two or more BDCs that are members of the same association of countries, plus (2) the direct costs of processing operations performed in such BDC or member countries is not less than 35 percent of the appraised value of the merchandise.

GSP Declaration--A declaration setting forth all pertinent detailed information concerning the production or manufacture of the merchandise, in the format specified in 19 CFR 10.173(a)(1)(i).

Imported Directly--Direct shipment from a BDC to the United States without passing through the territory of any other country; or if passing through the territory of any other country, the merchandise does not enter into the retail commerce of any other country; and the rules prescribed in 19 CFR 10.175 are followed.

Materials Produced in a BDC--Materials that are wholly the growth, product, or manufacture of a BDC or materials from other countries which were substantially transformed in the BDC into a new and different article of commerce and are incorporated into the GSP article. The cost or value of materials is described in 19 CFR 10.177(c). Also see Double Substantial Transformation.

Overhead Costs--Product costs, other than material and labor, that may reasonably be allocated to individual products.

Produced in the Beneficiary Developing Country--The eligible article is either (1) wholly the growth, product, or manufacture of the BDC or (2) substantially transformed in the BDC into a new and different article of commerce.

Substantial Transformation--Occurs when an article emerges from a manufacturing process with a name, character, and use that differs from those of the original material subjected to the process; determined on a case-by-case basis.

Trial Balance--A list of each general ledger account and its ending balance for the purpose of verifying that total debits and credits balance at the end of the period.

Appendix II

Examples of Direct Processing Operation Costs

Cost Category	Qualifying (Directly incurred in, or reasonably allocated to, the growth, production, manufacture, or assembly of the specific merchandise) T.D. 81-282	Reference	Nonqualifying (Not directly attributable to the specific merchandise or that are not costs of manufacturing the product) T.D. 81-282	Reference
Material	Manufacturer's actual cost for the materials.	19 CFR 10.177		
	When not included in the manufacturer's actual cost for the materials, the freight, insurance, packing, and all other costs incurred in transporting the materials to the manufacturer's plant.	19 CFR 10.177		
	The actual cost of waste or spoilage (material list), less the value of recoverable scrap.	19 CFR 10.177		
	Taxes and/or duties imposed on the materials by the BDC, or an association of countries treated as one country, provided they are not remitted upon exportation.	19 CFR 10.177		
Labor/Personnel	Fringe benefits provided to direct labor employees.	T.D. 78-399 C.S.D. 80-208	Administrative salaries.	T.D. 78-399 C.S.D. 80-208
	On-the-job training for those employees.	C.S.D. 85-25	Salesmen's salaries, commissions, or expenses.	C.S.D. 80-246
	Cost of transportation provided to direct labor employees.	C.S.D. 80-208	Compensation of a plant manager performing only administrative functions.	C.S.D. 80-208
	Expenses incurred in transporting personnel to and from the production facility to render services that are directly related to the production process.	C.S.D. 80-208	Plant security, accounting personnel, office supplies, telephone and telex, automobiles and trucks compensation.	C.S.D. 80-208
	Group insurance provided to production employees as a fringe benefit.	T.D. 78-399	Wages of an office worker who is responsible for the importation of raw materials.	C.S.D. 80-208
	Compensation, including fringe benefits, of material handlers, shipping, and receiving employees to the extent it is for handling of materials used in the production of subassemblies or the finished subassemblies.	T.D. 78-399	Cost of an employee who merely performs general administrative functions related to the shipment of the merchandise.	C.S.D. 80-208

Cost Category	Qualifying (Directly incurred in, or reasonably allocated to, the growth, production, manufacture, or assembly of the specific merchandise) T.D. 81-282	Reference	Nonqualifying (Not directly attributable to the specific merchandise or that are not costs of manufacturing the product) T.D. 81-282	Reference
Labor/Personnel (cont.)	Cost of employees who receive, unload, and stock raw materials in the manufacturer's plant, distribute materials to the assembly, maintain storage areas and raw material inventory records, and pack and prepare the eligible articles for shipment.	C.S.D. 80-208		
	Cost of engineering, supervisory, quality control, and similar personnel.	C.S.D. 80-208		
	Compensation of group leader, quality control supervisors, and manufacturing foremen to the extent these personnel function as first-line supervisors of workers directly involved in the production operation.	C.S.D. 80-208		
	Cost of engineering personnel, including fringe benefits, if directly incurred in the production of the specific merchandise (pro rata portion).	C.S.D. 80-208		
	Facility maintenance expenses, including compensation of maintenance personnel to the extent they relate to the plant area where the subassemblies and articles are produced.	C.S.D. 80-208		
	Cost of production line employees, quality control personnel, and employees who are involved in the handling of raw materials upon receipt in the plant and the handling of goods in the packing and preparation for shipping.	C.S.D. 80-208		
	Plant manager's (or other administrative personnel) compensation, including fringe benefits, to the extent he functions as a first-line production foreman (percentage of such duties).	C.S.D. 80-208		
	Janitorial services costs to the extent incurred in the plant or factory area.	C.S.D. 80-208		
Labor/Personnel (cont.)	Social insurance for these employees (similar to unemployment or social security	C.S.D. 80-208		

Cost Category	Qualifying (Directly incurred in, or reasonably allocated to, the growth, production, manufacture, or assembly of the specific merchandise) T.D. 81-282	Reference	Nonqualifying (Not directly attributable to the specific merchandise or that are not costs of manufacturing the product) T.D. 81-282	Reference
	taxes).			
	Payroll taxes for direct labor, direct supervision, inspection, and inspection supervision.	C.S.D. 80-208		
	Pro rata expense of work permits for U.S. labor for persons involved in production	C.S.D. 80-208		
Equipment	Cost of renting, repairing, maintaining, and modifying production machinery.	C.S.D. 80-246		
	Cost of repairs, parts, and lubricants used to keep the production machinery in running order.	C.S.D. 80-246		
	Dies, molds, tooling, and depreciation on machinery and equipment that are allocable to the merchandise.	T.D. 78-399		
Equipment (cont.)	Depreciation on machinery and equipment used in the production of the subassemblies and eligible article.	T.D. 78-399 C.S.D. 80-246		
	Assists (used in production of the eligible article).	T.D. 78-399		
Quality Control	Research, development, design, engineering, and blueprint costs as they are allocable to the specific merchandise (not undertaken in the United States).	T.D. 81-282		
Packaging	Packaging performed in a BDC and essential for the shipment of an eligible article to the United States.	C.S.D. 80-208		
	Cost of the packaging operation and cost or value of materials that are produced in the BDC, provided the packaging materials are nonreusable shipping containers.	C.S.D. 80-208		
Transportation			Inland freight charges and brokers' fees associated with the raw materials used in the production of the merchandise (okay as cost of raw materials).	T.D. 78-399 C.S.D. 80-208

Cost Category	Qualifying (Directly incurred in, or reasonably allocated to, the growth, production, manufacture, or assembly of the specific merchandise) T.D. 81-282	Reference	Nonqualifying (Not directly attributable to the specific merchandise or that are not costs of manufacturing the product) T.D. 81-282	Reference
			Inland freight charges and brokers' fees associated with raw materials used in the production of the subassemblies (okay as cost of the raw materials).	T.D. 78-399 C.S.D. 80-208
Rent	Rent attributable to that portion of the building space directly used in the processing operations.	T.D. 78-399 C.S.D. 80-208	Rent on that portion of the building used for personnel offices, accounting departments, and other administrative functions.	T.D. 78-399
Taxes and Insurance	Pro rata share of taxes on the part of the building used in the processing operation.	C.S.D. 80-208	Sales taxes.	C.S.D. 80-208
Taxes and Insurance (cont.)	Cost of property insurance covering machinery and equipment used in the production process (with descriptive evidence).	C.S.D. 80-208	Casualty and liability insurance.	C.S.D. 80-208
Utilities	Cost of utilities, such as electricity, fuel, and water, to the extent they are actually used in the production process of the subassemblies and eligible article.	T.D. 78-399 C.S.D. 80-208 C.S.D. 80-246	Cost of electricity used for lighting or air conditioning administrative offices.	T.D. 78-399 C.S.D. 80-208 C.S.D. 80-246
	Heating costs to keep factory workers warm.	T.D. 78-399 C.S.D. 80-208 C.S.D. 80-246		
Other	Telecommunications costs incurred to facilitate the inspection of the merchandise and the first-line supervision of the production process (with proof).	T.D. 78-399 C.S.D. 80-208	Profit.	C.S.D. 84-104
	Pallets used in the storage of raw materials.	C.S.D. 80-208	General expenses of doing business that either are not allocable to the specific merchandise or are not related to the growth, production, manufacture, or assembly of the merchandise.	T.D. 78-399
Other (cont.)			Advertising.	T.D. 78-399
			Maintenance costs incurred for upkeep of administrative offices or other areas of the facility not related to the production area.	T.D. 78-399

Cost Category	Qualifying (Directly incurred in, or reasonably allocated to, the growth, production, manufacture, or assembly of the specific merchandise) T.D. 81-282	Reference	Nonqualifying (Not directly attributable to the specific merchandise or that are not costs of manufacturing the product) T.D. 81-282	Reference
			General office expenses, mail and telecommunication costs.	T.D. 78-399
			Communication expenses without evidence that they bear a direct relation to the production process.	T.D. 78-399
			Cost of automobiles, depreciation on automobiles.	T.D. 78-399
			Office supplies.	C.S.D. 80-208
			Interest expense that has been capitalized.	C.S.D. 84-104
			Accounting services supplied to the foreign manufacturer.	T.D. 78-399
			Research and development, engineering, and blueprint cost undertaken in the United States.	C.S.D. 81-282
			Onsite medical personnel for workers.	C.S.D. 80-208
Notes:				
19 CFR= Part 19 of the Code of Federal Regulations				
T.D.=Treasury Decision				
C.S.D.=Customs Service Decision				
BDC = beneficiary developing country				

Examples of Suggested Source Records to Support GSP Claims

Cost Category	Qualifying (Directly incurred in, or reasonably allocated to, the growth, production, manufacture, or assembly of the specific merchandise) T.D. 81-282	Source Record(s) This list is designed to provide companies involved in making GSP claims with the records that provide the best support for their claims. However, each company may utilize and maintain different records. Further, proper support may be achieved with a portion of the records mentioned.
Material	Manufacturer's actual cost for the materials.	GSP declaration, cost sheets, bill of materials, cost of goods sold, general ledger, vendor invoices, material price variance accounts, purchase history reports, inventory records, approved vendor listing by part.
	When not included in the manufacturer's actual cost for the materials, the freight, insurance, packing, and all other costs incurred in transporting the materials to the manufacturer's plant.	GSP declaration, cost sheets, bill of materials, cost of goods sold, general ledger, invoices (freight, insurance, and packing).
	Taxes and/or duties imposed on the materials by the BDC, or an association of countries treated as one country, provided they are not remitted upon exportation.	GSP declaration, cost sheets, bill of materials, cost of goods sold, general ledger, tax bills, duty accounts, and broker bills.
	The actual cost of waste or spoilage (material list), less the value of recoverable scrap.	Product yielding reports, sales invoices relating to waste shipments.
Labor/Personnel	Fringe benefits provided to direct labor employees.	GSP declaration, cost sheets, bill of materials. Manufacturing or engineering studies detailing basis for amount of direct labor required to produce product. General ledger detail for direct labor and fringes. Direct labor variance accounts.
	On-the-job training for those employees.	GSP declaration, cost sheets, general ledger detail for job training expense accounts.
	Cost of transportation provided to direct labor employees.	GSP declaration, cost sheets, general ledger detail for transportation of employees' expense accounts.
	Expenses incurred in transporting personnel to and from the production facility to render services that are directly related to the production process.	GSP declaration, cost sheets, general ledger detail for transportation of employees' expense accounts.
	Group insurance provided to production employees as a fringe benefit.	GSP declaration, cost sheets, general ledger detail for insurance expenses, insurance policies, and premium invoices.
Labor/Personnel (cont.)	Compensation, including fringe benefits, of material handling, shipping, and receiving	GSP declaration, cost sheets, bill of materials. Manufacturing or engineering studies detailing basis for amount of indirect labor required to

Cost Category	Qualifying (Directly incurred in, or reasonably allocated to, the growth, production, manufacture, or assembly of the specific merchandise) T.D. 81-282	Source Record(s) This list is designed to provide companies involved in making GSP claims with the records that provide the best support for their claims. However, each company may utilize and maintain different records. Further, proper support may be achieved with a portion of the records mentioned.
	employees to the extent it is for handling of materials used in the production of subassemblies or the finished subassemblies.	produce product. General ledger detail for indirect labor and fringes. Indirect labor variance accounts.
	Cost of employees who receive, unload, and stock raw materials in the manufacturer's plant, distribute materials to the assembly, maintain storage areas and raw material inventory records, and pack and prepare the eligible articles for shipment.	GSP declaration, cost sheets, bill of materials. Manufacturing or engineering studies detailing basis for amount of indirect labor required to produce product. General ledger detail for indirect labor and fringes. Indirect labor variance accounts.
	Cost of engineering, supervisory, quality control, and similar personnel.	GSP declaration, cost sheets, bill of materials, and support of how factory overhead was identified and allocated to product. The specific general ledger expense accounts that contain qualifying overhead costs must be identified. Further analysis of the accounts includes supporting accounting ledgers and cost accumulation information that detail the specific personnel and how they support the manufacturing operation. This includes job descriptions of the support personnel and the management, engineering, and quality control personnel involved in the direct support of the production process.
	Compensation of group leader, quality control supervisors, and manufacturing foremen to the extent these personnel function as first-line supervisors of workers directly involved in the production operation.	GSP declaration, cost sheets, bill of materials, and support of how factory overhead was identified and allocated to product. The specific general ledger expense accounts that contain qualifying overhead costs must be identified. Further analysis of the accounts includes supporting accounting ledgers and cost accumulation information that detail the specific personnel and how they support the manufacturing operation. This includes job descriptions of the management and supervisory personnel involved in the direct support of the production process.
Labor/Personnel (cont.)	Cost of engineering personnel, including fringe benefits, if directly incurred in the production of the specific merchandise (pro rata portion).	GSP declaration, cost sheets, bill of materials, and support of how factory overhead was identified and allocated to product. The specific general ledger expense accounts that contain qualifying overhead costs must be identified. Further analysis of the accounts includes supporting accounting ledgers and cost accumulation information that detail the specific

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		personnel and how they support the manufacturing operation. This includes job descriptions of the engineering personnel involved in the direct support of the production process.
	Facility maintenance expenses, including compensation of maintenance personnel to the extent they relate to the plant area where the subassemblies and articles are produced.	GSP declaration, cost sheets, bill of materials, and support of how factory overhead was identified and allocated to product. The specific general ledger expense accounts that contain qualifying overhead costs must be identified. Further analysis of the accounts includes supporting accounting ledgers and cost accumulation information that detail the specific personnel and how they support the manufacturing operation. This includes job descriptions of the support personnel involved in the direct support of the production process.
	Cost of production line employees, quality control personnel, and employees who are involved in the handling of raw materials upon receipt in the plant and the handling of goods in packing and preparation for shipping.	GSP declaration, cost sheets, bill of materials, and support of how factory overhead was identified and allocated to product. The specific general ledger expense accounts that contain qualifying overhead costs must be identified. Further analysis of the accounts includes supporting accounting ledgers and cost accumulation information that detail the specific personnel and how they support the manufacturing operation. This includes job descriptions of the support and quality control personnel involved in the direct support of the production process.
Labor/Personnel (cont.)	Plant manager's (or other administrative personnel) compensation, including fringe benefits, to the extent he functions as a first-line production foreman (percentage of such duties).	GSP declaration, cost sheets, bill of materials, and support of how factory overhead was identified and allocated to product. The specific general ledger expense accounts that contain qualifying overhead costs must be identified. Further analysis of the accounts includes supporting accounting ledgers and cost accumulation information that detail the specific personnel and how they support the manufacturing operation. This includes job descriptions of the management personnel involved in the direct support of the production process.
	Janitorial services costs to the extent incurred in the plant or factory area.	GSP declaration, cost sheets, bill of materials, and support of how factory overhead was identified and allocated to product. The specific general ledger expense accounts that contain qualifying overhead costs must be identified.

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		Further analysis of the accounts includes supporting accounting ledgers and cost accumulation information that detail the specific personnel and how they support the manufacturing operation. This includes job descriptions of the support personnel involved in the direct support of the production process.
	Social insurance for these employees (similar to unemployment or social security taxes).	GSP declaration, cost sheets, social insurance tax accounts.
	Payroll taxes for direct labor, direct supervision, inspection, and inspection supervision.	GSP declaration, cost sheets, tax bills showing whom taxes are paid for.
	Pro rata expense of work permits for U.S. labor for persons involved in production.	GSP declaration, cost sheets, expense accounts for permits.
Quality Control	Research, development, design, engineering, and blueprint costs as they are allocable to the specific merchandise (not undertaken in the United States).	GSP declaration, cost sheets, bill of materials, and support of how research and development (R&D) was identified and allocated to product. The specific general ledger expense accounts that contain qualifying R&D must be identified. Further analysis of the accounts includes supporting accounting ledgers and cost accumulation information that detail the specific R&D costs.
Equipment	Cost of renting, repairing, maintaining, and modifying production machinery.	Manufacturing studies detailing the equipment utilized in production of the product and time required. General ledger detail listing the rental, repair, maintenance, and modification expense accounts relating to the required equipment.
	Cost of repairs, parts, and lubricant used to keep the production machinery in running order.	Manufacturing studies detailing the equipment utilized in production of the product and time required. General ledger detail listing the repair and maintenance expense accounts relating to the required equipment.
	Dies, molds, tooling, and depreciation on machinery and equipment that are allocable to the merchandise.	Manufacturing studies detailing the equipment utilized in production of the product and time required. General ledger detail listing the depreciation expenses relating to the required equipment.
	Depreciation on machinery and equipment used in the production of the subassemblies and eligible article.	Manufacturing studies detailing the equipment utilized in production of the product and time required. General ledger detail listing the depreciation expenses relating to the required equipment.
	Assists (used in production of the eligible article).	Purchase accounts, general ledger (machinery and equipment accounts), customer contracts,

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		fixed asset register (records showing location of machinery/equipment).
Rent	Rent attributable to that portion of the building space directly used in the processing operations.	Production space and utilization studies to support the proration of these expenses to the manufacturing operations. Invoices for rent and general ledger detail listing these expenses for the production period.
Taxes and Insurance	Pro rata share of taxes on the part of the building used in the processing operation.	Production space and utilization studies to support the proration of these expenses to the manufacturing operations. Invoices for taxes and insurance and general ledger detail listing these expenses for the production period.
	Cost of property insurance covering machinery and equipment used in the production process (with descriptive evidence).	Production space and utilization studies to support the proration of these expenses to the manufacturing operations. Invoices for insurance and general ledger detail listing these expenses for the production period.
Utilities	Cost of utilities, such as electricity, fuel, and water, to the extent they are actually used in the production process of the subassemblies and eligible article.	Production space and utilization studies to support the proration of these expenses to the manufacturing operations. Invoices for utilities and general ledger detail listing these expenses for the production period.
	Heating costs to keep factory workers warm.	Production space and utilization studies to support the proration of these expenses to the manufacturing operations. Invoices for utilities and general ledger detail listing these expenses for the production period.
Packaging	Packaging performed in a BDC and essential for the shipment of an eligible article to the United States.	Each company has its specific expenses involved in the manufacturing process that are not recorded in the above-mentioned accounts. The support for these expenses would involve detailing how the expenses related to manufacture of the product (job descriptions, product requirements listed in customer contracts) and the amount of the expenses incurred (general ledger detail of amounts recorded as expenses along with supporting invoices if applicable).
	Cost of the packaging operation and cost or value of materials that are produced in the BDC, provided the packaging materials are nonreusable shipping containers.	Each company has its specific expenses involved in the manufacturing process that are not recorded in the above-mentioned accounts. The support for these expenses would involve detailing how the expenses related to manufacture of the product (job descriptions, product requirements listed in customer contracts) and the amount of the expenses incurred (general ledger detail of amounts

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		recorded as expenses along with supporting invoices if applicable).
Other	Telecommunications costs incurred to facilitate the inspection of the merchandise and the first-line supervision of the production process (with proof).	Each company has its specific expenses involved in the manufacturing process that are not recorded in the above-mentioned accounts. The support for these expenses would involve detailing how the expenses related to manufacture of the product (job descriptions, product requirements listed in customer contracts) and the amount of the expenses incurred (general ledger detail of amounts recorded as expenses along with supporting invoices if applicable).
Other (cont.)	Pallets used in the storage of raw materials.	Each company has its specific expenses involved in the manufacturing process that are not recorded in the above-mentioned accounts. The support for these expenses would involve detailing how the expenses related to manufacture of the product (job descriptions, product requirements listed in customer contracts) and the amount of the expenses incurred (general ledger detail of amounts recorded as expenses along with supporting invoices if applicable).