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# Tax Alert – Canada

## 2018 customs compliance verification list update

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The Canada Border Services Agency (CBSA) has released its semi-annual list of trade compliance verification (audit) priorities (Phase 1 2018). Every year, the CBSA releases the annual verification priorities in January, followed by a midyear update in July. These are designed to update the importing community on ongoing verification priorities and set the stage for new priorities for the upcoming calendar year.

At the start of 2018, the CBSA remains focused on tariff classification as a priority audit area, with the introduction of six new tariff classification product categories to the list of existing priorities.

### Background

The CBSA uses trade compliance verifications to ensure that importers comply with customs legal requirements and programs. The main objectives of conducting verifications are to:

- ▶ Assess an importer's compliance with CBSA-administered legislation
- ▶ Determine compliance within industry sectors
- ▶ Conduct a review of an importer's liabilities and entitlements
- ▶ Assess the integrity of trade data received from importers

The CBSA manages trade compliance within three specific program categories – tariff classification, valuation and origin – using two post-release verification processes: random verifications and targeted verification priorities.

## **Random verifications**

Verifications, which are selected using a statistical model, are designed to measure compliance rates and revenue loss. The results from these types of verifications are used by the CBSA for many purposes, including risk assessment (which may lead to targeted verification priorities – see below), revenue assessment and the promotion of voluntary compliance.

## **Targeted verification priorities**

Targeted verification priorities are established using a risk-based, evergreen process, so that new targets are added throughout the year. Verification priorities may also be carried over from previous years.

It is important to note that importers that deal in products or industries that are not marked as verification priorities should not presume they have avoided a verification this year. Through random verifications, the CBSA continues to verify importers in sectors and industries not included in the list of verification targets.

## **Verification priorities: updated targets**

The first release of verification priorities for 2018 encompasses 46 tariff classification verification priorities, including six new priorities for classification in the first half of 2018, as well as one valuation verification priority and one origin verification priority.

The primary focus of the CBSA's trade compliance verification priorities for 2018 remains tariff classification. The continued focus on tariff classification may be due to the relative ease of verifying that goods have been classified correctly for customs purposes. Increased audit activity in this program may also lead to higher revenues for the CBSA.

The following chart lists all current tariff classification priority items.

Verification priority: tariff classification		
Curling irons	Parts for use with machinery of Chapter 84 ( <i>new additional round</i> )	Stone blocks and slabs
Furniture for non-domestic purposes	Tubes, pipes and hoses ( <i>new additional round</i> )	Railway equipment
Seaweed	Parts of lamps	Sausages and similar products
Dextrins and other modified starches	Chemical products	Sacks and bags under Tariff Item 9903.00.00
Disposable and protective gloves	Pasta	Yeasts and other micro-organisms
Batteries	Hair dryers and electric smoothing irons	Nails and similar articles of iron or steel
Footwear CAD30 or more per pair ( <i>new additional round</i> )	Cell phone cases	Castors with mountings of base metal
Hair extensions	Mountings, fittings and similar articles	Pickled vegetables
Special-purpose motor vehicles	Stone table and countertops	Mineral waters and aerated waters ( <i>new</i> )
Parts for power trains	Prepared meat of swine	Gloves ( <i>new</i> )
Geophysical and oceanographic instruments	Live plants	Pebbles, limestone and granules ( <i>new</i> )
Articles of apparel and clothing accessories ( <i>new additional round</i> )	Interchangeable tools	Spent fowl ( <i>new</i> )
Bicycle parts	Air brakes and parts thereof	Safety headgear ( <i>new additional round</i> )
Articles of plastics	Handkerchiefs, towels and related paper products	Bags ( <i>new</i> )
Vices and clamps	Olive oil	Import permit numbers ( <i>new</i> )
	Photographic film	

The CBSA has identified six new product categories for **tariff classification** verification priorities – mineral waters and aerated waters, gloves, pebbles, limestone and granules, spent fowl, bags, and import permit numbers – and has also opened an additional round of verification for five tariff classification verification priorities.

There are no new **valuation** verification priorities added for 2018. However, the CBSA remains focused on its previously identified valuation target, the apparel industry, by continuing its third round of verifications set in April 2017. The risks for the apparel industry remain elevated due to the high duty rates associated with apparel (duty rates vary between 10% and 18%). The CBSA stands to generate increased revenues, if the agency determines that imported goods ought to be re-classified, and a higher rate of duty applies. According to the CBSA, during the second round of verifications, 47% of importers were found to be noncompliant, and the CBSA's findings resulted in over \$10 million in revenues so far.

Importers of apparel and similar fashion articles (e.g., footwear, fashion accessories, imitation jewelry) should carefully consider whether they are prepared for a valuation verification audit. Importers that purchase goods from related parties and use transfer pricing as the basis for customs values should be especially careful to consider their record keeping obligations and whether the documentary support on record is sufficient to defend the use of a transfer price as the basis for customs value.

One origin verification priority listed by the CBSA that remains ongoing since the last listing of verification priorities relates to the North American Free Trade Agreement (NAFTA), specifically in relation to T-shirts. The purpose of a NAFTA origin verification is to determine whether goods imported into Canada are entitled to the NAFTA preferential rate of duty. For the current round of verification in place, approximately 42% of importers have been found deficient from a compliance perspective, and the CBSA's targeted enforcement initiatives have so far generated approximately \$400,000 in revenues.

## Takeaways for importers

CBSA verifications can be time-consuming and costly for importers. Now, more than ever, the standard of reasonable care that importers apply to compliance programs and processes is under scrutiny. It is important for companies to be proactive and to adopt an informed compliance mindset. Best practices include implementing programs, frameworks and methodologies to help organizations maintain and continuously improve their customs and trade compliance profile.

## Learn more

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