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Tax Alert – Canada

Trade compliance verification list update

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

On 6 July 2018, the Canada Border Services Agency (CBSA) released its semi-annual list of trade compliance verification (audit) priorities designed to update the importing community on ongoing verification priorities and set the stage for new priorities for the upcoming calendar year.

At the midpoint of 2018, the CBSA remains focused on tariff classification as a priority audit area, with the introduction of three new tariff classification product categories and five new rounds 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 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 program categories – tariff classification, valuation and origin – using two 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 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. New targets are added throughout the year. Verification priorities may also be carried over from previous years.

Importers that deal in products or industries that are outside the targeted verification priorities should not presume they will avoid 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 second release of verification priorities for 2018 encompasses 39 tariff classification verification priorities (including 3 new priorities for classification in the second half of 2018), 1 valuation verification priority and 2 origin verification priorities.

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	Tubes, pipes and hoses	Nails and similar articles of iron or steel
Furniture for non-domestic purposes	Parts of lamps	Castors with mountings of base metal
Seaweed	Chemical products	Pickled vegetables (new additional round)
Dextrins and other modified starches	Pasta	Mineral waters and aerated waters
Batteries (new additional round)	Hair dryers and electric smoothing irons	Gloves
Footwear (CAD30 or more per pair)	Cell phone cases (new additional round)	Pebbles, limestone and granules
Hair extensions	Mountings, fittings and similar articles	Spent fowl
Parts for power trains	Handkerchiefs, towels and related paper products	Safety headgear
Articles of apparel and clothing accessories	Olive oil (new additional round)	Bags
Bicycle parts	Photographic film	Import permit numbers
Articles of plastics	Stone blocks and slabs (new additional round)	Other mountings and fittings, suitable for furniture (new)
Vices and clamps	Railway equipment	Air heaters and hot air distributors (new)
Parts for use with machinery of Chapter 84	Sacks and bags under tariff item 9903.00.00	Flashlights and miners' safety lamps (new)

The CBSA has identified three new product categories for **tariff classification** verification priorities – other mountings and fittings suitable for furniture, air heaters and hot air distributors, and flashlights and miners' safety lamps – and has opened an additional round of verification for five product categories.

The CBSA remains focused on its previously identified valuation priority target, the apparel industry, as well as bedding and t-shirts.

Importers of apparel and similar fashion articles (e.g., footwear, fashion accessories, imitation jewelry) should assess 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 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.

Two origin verification priorities listed by the CBSA that remain ongoing since the last listing of verification priorities relate to the North American Free Trade Agreement (NAFTA): t-shirts, and bedding and drapery. The purpose of a NAFTA origin verification is to determine whether goods imported into Canada are entitled to the NAFTA preferential rate of duty.

Takeaways for importers

CBSA verifications can be time-consuming and costly for importers. Companies must be proactive and adopt an informed compliance mindset. Best practices for companies include implementing programs, frameworks and methodologies to help maintain and continuously improve their customs and trade compliance profile.

Learn more

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