

# Indirect Tax Alert

News from EY Americas Tax

## Canada: 2020 customs compliance verification list update

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### Executive summary

The Canada Border Services Agency (CBSA) released its semi-annual list of trade compliance verification (audit) priorities on 7 January 2020. The list is designed to update the importing community on ongoing verification priorities and set the stage for new priorities for the upcoming calendar year.

The CBSA continues to focus on tariff classification as a priority audit area, with the introduction of four new rounds to the list of tariff classification priorities.

### Detailed discussion

#### 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 statistical-based verifications and targeted verification priorities.

### Random statistical-based 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 the random statistical-based 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 2020 encompasses 21 tariff classification verification priorities, 2 valuation verification priorities and 1 origin verification priority.

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		
Furniture for non-domestic purposes (Round 3)	Cell phone cases (Round 2)	Other mountings and fittings, suitable for furniture
Batteries (Round 3)	Olive oil (Round 2)	Air heaters and hot air distributors <b>(Round 2 - New)</b>
Footwear (\$30 or more per pair) (Round 4)	Pickled vegetables (Round 4)	Flashlights and miners' safety lamps <b>(Round 2 - New)</b>
Articles of apparel and clothing accessories (Round 3)	Gloves <b>(Round 2 - New)</b>	Stone table and counter tops (Round 2)
Articles of plastics (Round 3)	Safety headgear (Round 4)	Disposable and protective gloves (Round 4)
Parts of lamps (Round 3)	Bags <b>(Round 2 - New)</b>	Parts of machines and mechanical appliances
Pasta (Round 2)	Import Permit Numbers (Round 2)	Other chemical products

The CBSA has introduced four additional rounds of tariff classification verification to four product categories: Gloves (Round 2), Bags (Round 2), Air heaters and hot air distributors (Round 2) and Flashlights and miners' safety lamps (Round 2).

### Verification priority: valuation

Current CBSA valuation priority targets are focused on two types of goods: apparel and footwear. Importers of these types of goods should assess whether they are prepared for a valuation verification audit. CBSA valuation audits targeting these imports have revealed that importers are omitting additions to the price paid or payable of goods mandated by statute such as design "assists," not taking into account transfer price adjustments made for tax purposes, or not putting proper documentation in place to account for non-dutiable agent commissions, where applicable.

In addition, 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.

### **Verification priority: origin**

A single-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): 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 according to the NAFTA rules of origin.

The full listing of CBSA trade compliance verification priorities can be found on the [CBSA's website](#).

### **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.

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