

# Indirect Tax Alert

News from Americas Tax Center

# Canadian Customs Authority releases 2019 customs compliance verification list

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## Executive summary

The Canada Border Services Agency (CBSA) released its semi-annual list of trade compliance verification (audit) priorities in January 2019. 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 two new rounds to the list of tariff classification priorities and one new round to the list of valuation verification 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 2019 encompasses 34 tariff classification verification priorities, 2 valuation verification priorities 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 (Round 3)	Parts of lamps (Round 2)	Safety headgear (Round 3)
Furniture for non-domestic purposes (Round 2)	Pasta (Round 2)	Bags
Seaweed (Round 4)	Hair dryers and electric smoothing irons	Import permit numbers
Dextrins and other modified starches (Round 4)	Cell phone cases	Mountings and fittings, suitable for furniture
Batteries (Round 3)	Mountings, fittings and similar articles	Air heaters and hot air distributors
Footwear (CAD \$30 or more per pair) (Round 3)	Olive oil (Round 2)	Flashlights and miners' safety lamps
Hair extensions (Round 3)	Stone blocks and slabs (Round 2)	Stone table and counter tops (Round 2 - New)
Parts for power trains (Round 2)	Nails and similar articles of iron or steel	Disposable and protective gloves (Round 4 - New)
Articles of apparel and clothing accessories (Round 3)	Castors with mountings of base metal	
Articles of plastics (Round 2)	Pickled vegetables (Round 4)	
Vices and clamps (Round 2)	Mineral waters and aerated waters	
Parts for use with machinery of Chapter 84 (Round 2)	Gloves	
Tubes, pipes and hoses (Round 2)	Spent fowl	

The CBSA has opened two additional rounds of tariff classification verification for two product categories – stone table and counter tops (second round), and disposable and protective gloves (fourth round).

### 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 statutory additions to the price paid or payable of goods 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

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.

Reference: <https://www.cbsa-asfc.gc.ca/import/verification/menu-eng.html>.

### 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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