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Tax Alert – Canada

CBSA issues its trade compliance verification list update

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The Canada Border Services Agency (CBSA) published its semi-annual update of its trade compliance verification priorities list in July 2024.¹ 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 one new product category to the list of tariff classification priorities. In this update, the CBSA also identified new compliance priorities.

Background

The CBSA requires the importing community to meet all the requirements governing the accounting of commercial goods imported into Canada, including but not limited to:

- ▶ Classifying commercial goods under the appropriate tariff classification;
- ▶ Accurately declaring the origin and value of goods, in accordance with legislative requirements; and
- ▶ Paying the appropriate duties and taxes on the imported goods.

¹ [Trade compliance verifications \(cbsa-asfc.gc.ca\)](https://www.cbsa-asfc.gc.ca).

The CBSA uses trade compliance verifications to ensure that importers comply with customs legal requirements and programs. The CBSA’s main objectives when 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; and
- ▶ Assess the integrity of trade data received from importers.

Trade compliance verifications - target verification priorities

The CBSA manages a significant portion of import trade compliance within three program categories – tariff classification, valuation and origin – by conducting targeted verifications and by issuing verification priorities.

Targeted verification priorities are established using a risk-based, evergreen process, which means that new targets are added throughout the year. Verification priorities may also be carried over from previous years. It is important to note, however, that importers that deal in products or industries that are outside the targeted verification priorities should not presume they will not potentially be subject to a verification.

Verification priority: tariff classification

The July 2024 update of the CBSA’s verification priorities encompasses 10 tariff classification verification priorities, including one new product category (Gloves).

The CBSA’s continued focus on tariff classification may be due to the relative ease of verifying whether goods have been classified correctly for customs purposes. Increased audit activity in this trade program may also lead to higher revenues for the CBSA.

The following chart lists all current tariff classification targets:

Verification priority: tariff classification		
Gloves (Round 3) - New	Bags (Round 3)	Spent fowl (Round 3)
Freezers and other freezing equipment	Washers and dryers	LED lamps (Round 2)
Furniture for non-domestic purposes (Round 4)	Bicycle parts (Round 3)	Indicator panels and light-emitting diodes (LED)
Disposable and protective gloves (Round 5)		

Verification priority: valuation

The CBSA's valuation verification priority continues to be focused solely on Apparel (Round 4). Apparel importers should keep assessing 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

The CBSA's origin verification priority continues to focus on preferential tariff treatment claims under the Canada-United States-Mexico Agreement (CUSMA) for imports of bedding and drapery. The purpose of a CUSMA origin verification is to determine whether goods imported into Canada are entitled to the CUSMA preferential rate of duty according to the CUSMA rules of origin.

In addition, the CBSA is monitoring imports of goods originating in Russia or Belarus to enforce Canada's withdrawal of the Most-Favoured-Nation tariff treatment from goods originating in these two countries. Effective 2 March 2022, goods originating in Russia and Belarus are subject to the General Tariff customs duty rate of 35%.²

The list of goods currently being monitored and risk assessed includes, but is not limited to:

- ▶ Products of iron or steel;
- ▶ Fertilizer;
- ▶ Petroleum;
- ▶ Non-ferrous metals; and
- ▶ Tires.

² SOR / 2022-0035. For more information, see [EY Tax Alert 2022 Issue No. 44](#).

Other compliance priorities

In addition to the regular update of verification priorities noted above, the CBSA identified the following additional compliance priorities:

- ▶ Tariff rate quota and classification of supply-managed goods: verifications with respect to the classification of frozen desserts containing 5% dairy products;
- ▶ GST and excise duties and taxes: review of GST exemption codes and vaping products subject to excise duties and taxes;
- ▶ Import origin verifications under the Canada-European Union Comprehensive Economic and Trade Agreement and the Canada-United Kingdom Trade Continuity Agreement; and
- ▶ Duties Relief Program: verifications of licensees importing supply-managed goods.

Compliance intervention tools

Although trade compliance verifications are the CBSA's most comprehensive compliance tool, it is not always efficient for trade chain partners and the CBSA to identify and address instances of non-compliance. The verification process is lengthy, labour-intensive and generally conducted well after importations have occurred.

As part of its Trade Compliance Strategy and in tandem with trade compliance verifications, the CBSA continues to use three "compliance intervention tools" to enhance the overall efficiency and effectiveness of its trade compliance regime:

- ▶ Trade advisory notice (TAN)
 - ▶ A letter to the importer asking them to review a declaration (the letter includes public resources for guidance)
 - ▶ Acts as a nudge to help the importer when there is a potential for non-compliance
 - ▶ No monetary assessment is issued as a result of a TAN
- ▶ Compliance validation letter
 - ▶ A letter to the importer requesting more information, which must be provided to the CBSA within 30 days
 - ▶ Addresses instances of suspected non-compliance
- ▶ Directed compliance letter
 - ▶ A letter to the importer accompanied by a monetary assessment
 - ▶ Addresses instances of known non-compliance

These trade compliance intervention tools are designed to target specific import transactions, promote voluntary compliance, enable early correction of errors, and mitigate future costs of non-compliance where recurring importations repeat undetected errors. Similar to trade compliance verifications, recourse provisions of the *Customs Act* apply to any resulting assessments.

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 management profile.

Learn more

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