

Tax memo

Canadian tax updates



Retailers: Customs is targeting imports of footwear and apparel

Highlights the impact of customs valuation audits on importers of footwear and apparel.

May 3, 2012

Retailers who import footwear and apparel should be aware that the Canada Border Service Agency (CBSA) has added these products to its list of priorities for “value for duty” audits. This move is not surprising, given that the 15% to 18% rates of duty on footwear and apparel are among the highest in the Tariff.

Impact

If the value for duty (VFD) declared by the importer is found to be incorrect, the CBSA can re-assess duties and taxes for up to four years. Even if the goods are duty-free, the CBSA will require that the original customs entries be corrected.

The CBSA can impose financial penalties when it considers that the importer had “reason to believe” that the value originally declared was incorrect, whether or not the error resulted in a loss of revenue.

Penalties may be avoided if the importer submits a voluntary disclosure before the commencement of any enforcement activity, such as an audit. In addition, if the error is discovered as a result of an internal review, or a review by an external party (such as PwC), the importer may not be required to correct the error on past entries – even when additional duty may be owed.

Key audit issues

Key issues that will be covered in an audit include:

- Does the buyer whose price is used as the basis of the value for duty qualify as a *purchaser in Canada*?
- Is the sale to that person a “sale for export to Canada”?
- If the buyer and seller are related, did that relationship influence the price?
- Did the buyer furnish – directly or indirectly – any “assists” (e.g., materials, designs) that were used in the production of the goods?
- Did the buyer pay any royalties, commissions or payments of any kind that should be included in the value for duty?

How we can help

PwC customs specialists assist importers in several ways, including:

- carrying out a pre-audit review to identify errors that need to be corrected – under a voluntary disclosure if necessary – or that need be corrected prospectively only;
- supporting the importer’s position during the audit by using our experience and our knowledge of customs valuation legislation, policy and case law; and
- if necessary, helping the importer appeal decisions that result in additional costs.

Need more help?

For more information, please contact any of the following individuals:

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