

# MEMORANDUM D13-3-1

Ottawa, April 19, 2001

## SUBJECT

### METHODS OF DETERMINING VALUE FOR DUTY

This Memorandum briefly outlines and explains the methods of determining value for duty under the provisions of the *Customs Act*.

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### GUIDELINES AND GENERAL INFORMATION

1. Under the *Customs Act*, the primary basis of determining the value for duty of imported goods is the transaction value. This method and five subsidiary bases of determination are contained in sections 48 to 53 of the Act. In order to determine value for duty, the first of these methods which can be applied to the circumstances of the transaction involving imported goods must be used. In only one instance can the sequence in which the methods appear in the legislation be altered: the order of application of sections 51 and 52 can be reversed at the request of the importer. Section 47 contains the provisions relating to the sequential application of the various methods of valuation.
2. The primary basis of determination and the five subsidiary methods are as follows:
  - Section 48 – The transaction value method
  - Section 49 – The transaction value method of identical goods
  - Section 50 – The transaction value method of similar goods
  - Section 51 – The deductive method of valuation
  - Section 52 – The computed method of valuation
  - Section 53 – The residual method of valuation
3. Certain D Memoranda explain in detail the application of each method of valuation. A brief outline of the key elements of the various methods is given below.

#### **Transaction Value Method (Section 48 of the *Customs Act*)**

4. This is the primary method of valuation. Value for duty is based upon the price paid or payable for the goods being appraised. Certain adjustments, both additions and deductions, can be made to this price to arrive at the transaction value of the goods. If the transaction value meets certain criteria for acceptability set out in subsection 48(1), it will be the value for duty. Section 48 can only be applied in cases where the goods being appraised are sold. See Appendix A to this Memorandum, Memorandum D13-4-1, "*Transaction Value*" Method of Valuation (*Customs Act*, Section 48), and Memorandum D13-4-3, *Customs Valuation: Price Paid or Payable (Customs Act, Section 48)*.

#### **Transaction Value Method of Identical Goods (Section 49 of the *Customs Act*)**

5. If section 48 cannot be applied, consideration must then be given to the method of valuation set out in section 49. In section 49, value for duty is based upon the transaction value (that is, a value determined in accordance with section 48) of goods that are identical to the goods being appraised. The transaction value of the identical goods can be adjusted if there are differences in trade level, quantities, or transportation costs between the identical goods and the goods being appraised. The value for duty of the goods being appraised would be the transaction value of the identical goods adjusted to account for the differences mentioned above (see Appendix B to this Memorandum and Memorandum D13-5-1, *Application of Sections 49 and 50 of the Customs Act*).

#### **Transaction Value Method of Similar Goods (Section 50 of the *Customs Act*)**

6. When section 49 cannot be applied, the method of valuation set out in section 50 must then be considered. The method of valuation provided in section 50 is essentially the same as that contained in section 49 except that the basis of value for duty is the transaction value of goods that are similar to the goods being appraised. This transaction value, which can be adjusted in the same way as shown in section 49, would be the value for duty of the goods being appraised (see Appendix B to this Memorandum and Memorandum D13-5-1).

#### **Deductive Method of Valuation (Section 51 of the *Customs Act*)**

7. If section 50 is not applicable to the importation in question, section 51 must then be applied unless the importer has requested that the order of sections 51 and 52 be reversed. The value for duty is determined under section 51 by looking to sales in Canada of the goods being appraised or of identical or similar imported goods. A “price per unit” is established on the basis of these sales, from which amounts are deducted to account for profit earned and general expenses incurred on sales in Canada, certain transportation costs, and Canadian duties and taxes. The “price per unit,” once adjusted, would be used in calculating the value for duty of the goods being appraised. See Appendix C to this Memorandum, Memorandum D13-7-1, *Determination of the Price per Unit, (Customs Act, Section 51)*, and Memorandum D13-7-3, *Deductions From the Price per Unit (Customs Act, Section 51)*.

#### **Computed Method of Valuation (Section 52 of the *Customs Act*)**

8. Under section 52, determination of value for duty begins with the cost of production of the goods being appraised. To this, amounts are added to account for profit earned and general expenses incurred on sales for export to Canada. The total amount would form the basis for calculating the value for duty of the goods being appraised. See Appendix D to this Memorandum and Memorandum D13-8-1, *“Computed Value” Method (Customs Act, Section 52)*.

#### **Residual Method of Valuation (Section 53 of the *Customs Act*)**

9. If all the previous methods of valuation have been examined and been found to be inapplicable to the circumstances surrounding the transaction involving the goods being appraised, section 53 is then applied. Under section 53, a value for duty is derived from a flexible application of one of the previous methods of valuation set out in sections 48 to 52. See Memorandum D13-9-1, *“Residual Basis of Appraisal” Method (Customs Act, Section 53)*.

10. Appendices A to E to this Memorandum contain calculation sheets, one for each method of valuation, which importers may use as an aid to assist in determining value for duty. These sheets are not part of the documentation requirements for importing goods into Canada as contained in Memorandum D1-4-1, *Canada Customs Invoice Requirements*, and need not be submitted with entry documents. However, importers may wish to keep the calculation sheets on file in order to facilitate a review by customs should this prove necessary.

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(c) Deductions, if applicable (if included in (a) above)

(1) Transportation, insurance, and associated costs from the point of direct shipment (see Memorandum D13-3-3 and Memorandum D13-3-4) .....

(2) Construction, erection, assembly costs, etc., after importation (see Memorandum D13-4-7) .....

(3) Import duties and taxes (see Memorandum D13-4-7) .....

SUB TOTAL .....

VALUE FOR DUTY \$ \_\_\_\_\_

**APPENDIX B**

**TRANSACTION VALUE OF IDENTICAL/SIMILAR GOODS**

1. If the value for duty cannot be determined under the transaction value method, then the goods must be valued under a subsequent method. If identical goods were imported at or about the same time as the goods being appraised (see Memorandum D13-5-1, *Application of Sections 49 and 50 of the Customs Act*), then these other goods must be used as the basis for determining the value for duty.
2. If there were no identical goods imported but similar goods were imported at or about the same time (see Memorandum D13-5-1), then these goods must be used as the basis for determining the value for duty.
3. In order to determine the value for duty under either of these methods, it is necessary that the value for duty of the identical or similar goods has been determined under the transaction value method.
4. To determine the value for duty of the goods being appraised, use the transaction value of the identical/similar goods and adjust for any differences in quantity, commercial level, or mode and distance of transportation between the goods being appraised and the identical/similar goods (see Memorandum D13-5-1).

(a) Transaction value of identical/similar goods	\$ _____
(b) Adjustments to (a), if any. Indicate if addition or deduction is being made (+, -) (see Memorandum D13-5-1)	
(1) quantity differences	.....
(2) commercial level differences	.....
(3) mode and distance of transportation differences	.....
(c) Value for duty	\$ _____

**APPENDIX C**

**DEDUCTIVE VALUE**

1. If none of the previous methods are applicable, the deductive method may be used to determine the value for duty. The importer has the option, however, of reversing the order of application of the deductive and computed methods.
2. Under this method, it is first necessary to establish the predominant price per unit at which the goods, or identical or similar goods, were sold in Canada, either in the condition as imported or after further processing. Further instructions for determining a price per unit are contained in Memorandum D13-7-1, *Determination of the Price per Unit (Customs Act, Section 51)*.
3. From the price per unit, deductions are made for either commissions earned on sales in Canada, or an amount for profit and general expenses on sales in Canada and certain other elements specified in Memorandum D13-7-3, *Deductions From the Price per Unit (Customs Act, Section 51)*, where applicable.
4. The amount for profit and general expenses is to be calculated as a whole and expressed as a percentage of selling price.
5. The valuation provisions of the *Customs Act* specify that amounts for commissions or profit and general expenses be those “generally reflected” on sales of imported goods of the same class or kind in Canada. In applying this provision, customs is prepared to accept the importer’s own figures for commissions or profit and general expenses based on sales of the narrowest range of goods for which accounting records are available.

(a) Price per unit (see Memorandum D13-7-1)	\$ _____
(b) Deductions	
(1) Commissions or profit and general expenses (see Memorandum D13-7-3)	.....
(2) Transportation costs from the point of direct shipment (see Memorandum D13-3-3 and Memorandum D13-3-4)	.....
(3) Duties and taxes in Canada (see Memorandum D13-7-3)	.....
(4) Assembly, packaging, further processing costs (if applicable) after importation (see Memorandum D13-7-3)	.....
(c) Value for duty	\$ _____

**APPENDIX D**

**COMPUTED VALUE**

1. If the imported goods cannot be valued under the transaction value method or under the transaction value method of identical or similar goods, the deductive value method or the computed value method must be used. The deductive value method is explained in Appendix C.
2. In order to determine a value for duty under the computed value method, it will be necessary to obtain information from the country of production of the goods, normally from the producer.
3. A computed value consists of the aggregate of the elements specified in paragraphs 52(2)(a) and (b) of the *Customs Act*. These are materials, production or other processing costs, packing, assists, the cost to the producer of any engineering work, etc., undertaken in Canada, and supplied to him and an amount for profit and general expenses (see Memorandum D13-8-1, "*Computed Value*" Method (*Customs Act*, Section 52)).
4. The amount for profit and general expenses to be considered when calculating the computed value is the amount "generally reflected" in export sales to Canada by producers in the country of export. In applying this provision, customs is prepared to accept the producer's own figures based on sales to Canada of the narrowest range of goods for which accounting records are available.

(a) Elements specified in paragraph 52(2)(a) (see Memorandum D13-8-1)		
(1) materials employed in production	.....	
(2) production and processing costs	.....	
(3) packing costs	.....	
(4) value of assists	.....	
(5) costs to the producer of engineering work, etc., undertaken in Canada	.....	\$ _____
(b) Amount for profit and general expenses referred to in paragraph 52(2)(b) (see Memorandum D13-8-1)		\$ _____
(c) Value for duty		\$ _____



## APPENDIX E

### RESIDUAL BASIS OF APPRAISAL

1. There may be some importations that cannot be valued under the previous methods of valuation because of certain circumstances in the transaction between the importer and exporter.
2. In such cases, the valuation provisions of the *Customs Act* provide that a value be determined by using a “flexible application” of one of the previous methods based on information available in Canada (see Memorandum D13-9-1, “*Residual Basis of Appraisal*” Method (*Customs Act, Section 53*)). In determining value for duty under this method, importers may use one of the previous sheets for calculation purposes.

## REFERENCES

### ISSUING OFFICE –

Origin and Valuation Policy Division  
Trade Policy and Interpretation Directorate

### LEGISLATIVE REFERENCES –

*Customs Act*, sections 48 to 53

### HEADQUARTERS FILE –

7034-5-61

### SUPERSEDED MEMORANDA “D” –

D13-3-1, June 1, 1986

### OTHER REFERENCES –

D1-4-1, D13-3-3, D13-3-4, D13-4-1, D13-4-3, D13-4-4, D13-4-5, D13-4-7, D13-4-8, D13-4-9,  
D13-5-1, D13-7-1, D13-7-3, D13-8-1, D13-9-1

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