

MEMORANDUM D13-10-1

Ottawa, March 28, 2001

SUBJECT

USED GOODS (CUSTOMS ACT, SECTIONS 48 TO 53)

This Memorandum outlines and explains the manner in which the value for duty of used goods, other than used motor vehicles, is determined under the *Customs Act*. Memorandum D13-10-2, *Used Automobiles, Motor Vehicles, Boats, and Other Vessels (Customs Act, Sections 48 to 53)*, outlines the manner in which the value for duty of used motor vehicles is to be determined.

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GUIDELINES AND GENERAL INFORMATION

Used Goods Valued Under the Transaction Value Method (Section 48 of the *Customs Act*)

1. Where used goods are sold for export to Canada, and the sale meets all of the requirements set out in section 48, the price paid or payable for the goods is to be used as the basis for determining the value for duty.
2. Attention is drawn to subparagraph 48(5)(a)(ii) which requires that all costs, charges, and expenses incurred by the purchaser, incident to placing the goods in the condition in which they are shipped to Canada, must be included in the transaction value. As an example, a Canadian firm purchases used machinery from a foreign vendor on an "as is, where is" basis. The Canadian purchaser then contracts with a third person who disassembles the machinery and crates it for export to Canada. All costs, charges, and expenses incurred by the Canadian purchaser for the operation would be included as part of the transaction value.

Used Goods Not Valued Under Section 48 of the *Customs Act*

3. If the requirements of section 48 are not met, the value for duty must be determined under one of the subsequent methods of valuation applied in sequential order. Attention is drawn to two specific sets of circumstances where section 48 would not be applicable because a sale for export to Canada would not be considered to have occurred:

- (a) as part of an arrangement separate from the contract of sale, the goods are reconditioned, refurbished, modernized, or otherwise improved prior to their importation into Canada; and
- (b) the imported goods—whether purchased new or used—are subject to use prior to their importation into Canada, excepting motor vehicles where the intervening use is confined to the use of the vehicle as its own means of transportation.

4. In both of the situations outlined above, there is a change in the condition of the goods brought about by the deliberate action of the purchaser prior to importation. As a result, they could not be considered to be the goods originally sold to the purchaser. That original sale cannot be considered, therefore, to be a sale for export to Canada for the purposes of section 48.

Application of Alternate Valuation Methods (Sections 49 to 52 of the *Customs Act*)

5. Where section 48 cannot be used, certain difficulties may arise in applying sections 49 to 52 to appraise importations of used goods. These potential difficulties are outlined below.

6. Sections 49 and 50 allow for the valuation of goods based on the transaction value of identical or similar goods. However, as the goods being valued are used goods, it may be difficult to find sales to Canada of goods which could be considered identical or similar and which meet all the requirements of sections 49 and 50.

7. Under section 51, goods are valued on the basis of sales in Canada of the goods being appraised, or of identical or similar goods. If there are sales in Canada of the goods being appraised, it may be possible to determine the value for duty under this section. Where there are no such sales because the goods being appraised are imported for use in Canada rather than for resale, the difficulty of finding other sales of goods which could be considered identical or similar to the goods being appraised may preclude the application of this method.

8. Under section 52, goods are valued using the computed value method which is based, among other things, on the cost of production of the goods being appraised plus an amount for profit and general expenses. However, since used goods are not manufactured as such, it is not possible to calculate the cost of production.

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

9. It follows that since there may be difficulty in applying sections 49 to 52, used goods which cannot be appraised under section 48 will, in some cases, be valued using the residual method under section 53. In order to ensure that the approach applied reflects commercial reality and results in a value which is fair, uniform, and neutral, the valuation procedure may often require a process of close consultation between the importer of the goods and customs. Although a standard method of valuation is not appropriate, guideline methods may be useful in the application of this section. The following paragraphs outline several such guideline methods.

10. In a situation where the goods have been reconditioned, refurbished, modernized, or otherwise improved after the sale but prior to importation, customs would normally accept a value for duty based on the aggregate of the following:

- (a) the price paid or payable for the goods adjusted in accordance with the provisions of subsection 48(5); and

(b) an amount equal to the total costs, charges, and expenses incurred by the purchaser for such work.

11. In many other cases, the value for duty may be determined under the provisions of section 53, by flexibly applying section 49 or 50 using the transaction value of identical or similar new goods exported at the same or substantially the same time as the goods being appraised. In addition to the adjustments provided for in sections 49 and 50, the transaction value of such new goods will also be adjusted to account for differences in value as a result of:

- (a) depreciation, based on the life expectancy of the used goods for the period in use;
- (b) obsolescence, where warranted; and
- (c) condition, if other than average for the period in use.

12. Adjustments to the transaction value are initially made for differences in trade level and quantity, as well as transportation and associated costs as set out in subsections 49(3) and 50(2) of the Act. Deductions are then made for depreciation, followed by allowances, where warranted, for obsolescence and condition.

13. In the case of goods being appraised where the obsolescence factor is extremely high, appraisal may be made on the basis of the transaction value of identical or similar new goods exported to Canada at the same or substantially the same time as the goods being appraised were sold new. Adjustments are then made to the transaction value of such goods as provided for in sections 49 and 50, and for depreciation and condition only.

Depreciation

14. Depreciation is the reduction in service value throughout the useful life of goods resulting from normal wear and tear. It is ordinarily continuous throughout the useful lives of goods but can be partly offset by repairs and proper maintenance.

15. There are several methods of calculating depreciation. Whichever method is used, it must be based on a reasonable estimate of the useful life of the asset and on generally accepted accounting principles. The Appendix has been included as a guide to the estimated useful life of various products. This list is not intended to be definitive. Useful lives vary according to the nature of the goods, use, and climate or other conditions particular to the relevant industry. For used equipment of United States origin, the United States Treasury Department, Bureau of Internal Revenue, publishes *Bulletin F*. This publication is useful as a guide in determining life expectancies.

16. In calculating depreciation, it is normally assumed that at the end of the depreciation period the asset has little or no value. Exceptions to this may occur, for example, in cases where the original estimate of useful life was inaccurate. In such cases, the “residual” or remaining value will be taken into account in accordance with generally accepted accounting principles.

Obsolescence

17. Obsolescence results from technological improvements, such as changes in machine design or capacity, or inventions. Since the current models of new machinery and equipment may incorporate improvements of varying degrees which are not found on the imported used models, an allowance for obsolescence may be granted in certain circumstances.

18. In considering obsolescence, consideration will be given to both technological change and to the question of style, fashion, and changing market preference.

19. Generally, the question of obsolescence will be considered only after full provision has been made for depreciation. Obsolescence may be used as an adjustment of depreciated value in circumstances where the depreciation rate did not adequately take into account significant changes in technology or market preference.

20. If the value arrived at, using the Appendix and an acceptable method of depreciation, is significantly different from what the importer believes to be the market value of the goods, the importer may supply customs with objective information on the value which the market has established for the particular type of goods, which would justify to customs that further adjustments should be made for obsolescence or for the unusual condition of the goods. Only then will a further adjustment from the depreciated value be considered.

21. Goods with a relatively short life expectancy are likely to have a high depreciation rate and as such a factor for obsolescence would not normally be justified.

22. For goods with a relatively long life expectancy, an allowance will be made for obsolescence only if the importer can demonstrate that such an allowance is warranted and can provide evidence to support the amount claimed. Such an allowance, if granted, would not normally exceed the percentages set out below:

Age of Machine	Obsolescence
10 yrs	10%
20 yrs	20%
40 yrs	Up to 40%

Condition

23. The condition of the goods, if other than average, could result in an adjustment of the appraisal, either upwards or downwards. If the goods are in reasonable operating condition or average condition, no allowance would be made for condition.

24. Where the importer can demonstrate that the machine is in poorer than average condition taking into account the number of years in use, this may be taken into consideration when appraising the goods provided that satisfactory independent evidence in support of an allowance for condition is presented to customs.

25. Where repairs are necessary after importation to restore the machinery or equipment to reasonable operating condition, this fact may be taken into consideration when deciding on an amount for the condition adjustment. No allowance is made for the cost of modernization or alterations. The actual cost of the repairs would not, of course, be known when the goods were appraised at the time of importation. This provision, therefore, would apply only in response to a request for re-appraisal, and the allowance would be substituted for any other allowance for condition made in calculating the value for duty at which the goods were entered. A request for a re-appraisal must be submitted within 90 days after the date the appraisal was made and must be accompanied by evidence to support the cost of such repairs.

APPENDIX (English Version)

PRODUCT (in alphabetical order)	USEFUL LIFE IN YEARS	RULES
AIR CONDITIONERS	15	
AIRCRAFT		
– Heavy Aircraft	7	– For the purpose of tariff classification, aircraft engines represent 25% of value with the balance of the aircraft representing 75% of value.
– Light Aircraft	5	

PRODUCT (in alphabetical order)	USEFUL LIFE IN YEARS	RULES																
AUTOMOBILES, LIGHT TRUCKS		– Refer to Memorandum D13-10-2, <i>Used Automobiles, Motor Vehicles, Boats, and Other Vessels (Customs Act, Sections 48 to 53)</i> .																
AUTOMOTIVE PARTS	10	– Based on original transaction value: <div style="text-align: center;">Depreciation Rates</div> <table style="margin-left: auto; margin-right: auto;"> <tr> <td>1 year</td> <td style="text-align: center;">25%</td> <td>5 years</td> <td style="text-align: center;">65%</td> </tr> <tr> <td>2 years</td> <td style="text-align: center;">35%</td> <td>6 years</td> <td style="text-align: center;">70%</td> </tr> <tr> <td>3 years</td> <td style="text-align: center;">45%</td> <td>7 years</td> <td style="text-align: center;">75%</td> </tr> <tr> <td>4 years</td> <td style="text-align: center;">55%</td> <td></td> <td></td> </tr> </table>	1 year	25%	5 years	65%	2 years	35%	6 years	70%	3 years	45%	7 years	75%	4 years	55%		
1 year	25%	5 years	65%															
2 years	35%	6 years	70%															
3 years	45%	7 years	75%															
4 years	55%																	
BACKHOES, BULLDOZERS, CRANES, DRAGLINES, FRONT-END LOADERS, GRADERS, SCRAPERS, SHOVELS, TRACTORS INCLUDING RUBBERTIRED TYPES OR CRAWLER TYPES																		
– Attachments (blades, buckets, rippers, etc.)	5																	
– Diesel Powered	15																	
– Gasoline Powered	10																	
BULLDOZERS (see Backhoes)																		
CALCULATING MACHINES	10																	
CANMAKING MACHINERY	15																	
CASH REGISTERS	15																	
CHAIN SAWS	5																	
COIN OPERATED MACHINES																		
– Phonographs	5																	
– Pinball	5																	
– Vending	5																	
COMPUTERS	6	– Based on original transaction value																
CONCRETE BLOCK MACHINES	20																	
CRANES (see Backhoes)																		
CYLINDERS, OXYGEN OR ACETYLENE	25																	
DICTATING MACHINES	6																	
DIES, FIXTURES, JIGS, MOULDS, AND PATTERNS																		
– Dies, Moulds	5	– Where this information is available, dies and moulds should be appraised on the basis of																

PRODUCT (in alphabetical order)	USEFUL LIFE IN YEARS	RULES
		production potential in units and the number of units already produced.
- Fixtures	10	
- Jigs	10	
- Patterns	15	
DRAGLINES (see Backhoes)		
DRUMS		
- Cleaned		- Total allowances (for obsolescence, depreciation, and condition) not to exceed 50%
- Average		- Total allowances (for obsolescence, depreciation, and condition) not to exceed 65%.
- Very Dirty		- Total allowances (for obsolescence, depreciation, and condition) not to exceed 75%.
FIXTURES (see Dies)		
FORKLIFT TRUCKS	15	
GOLF CARTS		- Based on original transaction value, including extras:
		Depreciation Rates
		1 month 5% 1 year 30%
		2-3 months 10% 2 years 45%
		4-5 months 15% 3 years 55%
		6-7 months 20% 4 years 60%
		8-10 months 25% 5 years 70%
		11 months 28% 6 years 70%
		12 months 30% 7 years 75%
GRADERS, SELF-PROPELLED, MOTOR (see Backhoes)		
JIGS (see Dies)		
LAWN MOWERS	8	
LIGHT PLANTS	15	
LOADERS, FRONT-END (see Backhoes)		
LOG LOADERS, SKIDDERS, AND YARDERS	15	
MEAT CASES	15	

PRODUCT (in alphabetical order)	USEFUL LIFE IN YEARS	RULES
MOTORCYCLES AND SNOWMOBILES		– Based on original transaction value:
		Depreciation Rates
		1 year 30% 4 years 65%
		2 years 45% 5 years 75%
		3 years 55%
MOTORS, ELECTRIC		
– Fractional H.P.	10	
– 1 H.P. to 49 H.P.	15	
– 50 H.P. and Over	20	
MOTORS, OUTBOARD	8	– Based on original transaction value.
MOULDS (see Dies)		
PATTERNS (see Dies)		
PHONOGRAPHS (see Coin Operated Machines)		
PIANOS	30	
PILINGS, SHEET STEEL	5	
– Good condition		– Total allowances (for obsolescence, depreciation, and condition) not to exceed 25%.
– Average condition		– Total allowances (for obsolescence, depreciation, and condition) not to exceed 40%
– Fair condition		– Total allowances (for obsolescence, depreciation, and condition) not to exceed 50%.
– Poor condition		– Total allowances (for obsolescence, depreciation, and condition) not to exceed 60%.
PINBALL MACHINES (see Coin Operated Machines)		
PINSETTERS	5	
PIPE, DREDGE	10	
PIPE, STEEL		
– Less than 6 in. or 15 cm diameter.	20	
– Equal to or greater than 6 in. or 15 cm diameter.	30	

PRODUCT (in alphabetical order)	USEFUL LIFE IN YEARS	RULES
PRESSES		
– Baling Press (metal)	7	
– Vegetable Oil Press	10	
RADIOS		
	8	
RAILWAY ROLLING STOCK		
		– Based on current transaction value.*
– Cabooses	35	
– Freight Cars	25	– Maximum depreciation of 90%.
– Box		
– Coal		
– Flat, Standard, Container, Bulkhead, Piggyback		
– Gondola		
– Hopper, covered or open-top		
– Ore		
– Refrigerator		
– Side-Dump		
– Tank		
– Locomotives	20	
– Major Work Equipment and Floating Equipment	35	
– Barges		
– Brush Cutters		
– Cranes		
– Bunk cars for employees		
– Tie Inserters		
– Winch Carts		
– Passenger Rolling Stock	35	

*Calculation of current transaction value:

- (1) Divide index number for year of importation by index number for year of manufacture = X.
- (2) Multiply X by original price new = current transaction value.

Year	Index Number	Year	Index Number
1946	13	1966	40
1947	16	1967	39
1948	16	1968	39
1949	18	1969	40
1950	20	1970	45
1951	21	1971	44
1952	23	1972	50
1953	23	1973	51
1954	26	1974	57
1955	26	1975	74
1956	27	1976	78
1957	30	1977	95
1958	31	1978	107
1959	32	1979	125
1960	34	1980	144
1961	33	1981	143
1962	34	1982	140
1963	35	1983	144
1964	38	1984	127
1965	40		

Note: Taken from Rule 107 of the *Interchange Rules* published by the Association of American Railroads.

PRODUCT (in alphabetical order)	USEFUL LIFE IN YEARS	RULES
RANGES, ELECTRIC	15	
RECORD PLAYERS	8	
REFRIGERATORS	15	
ROCK DRILLS	3	
RODS, GRINDING, TUNGSTEN or CARBIDE	5	
SCRAPERS, RUBBERTIRED, SELF-PROPELLED (see Backhoes)		
SHOVELS (see Backhoes)		
SLICERS	10	
SNOWMOBILES (see Motorcycles)		
STOVES	15	

PRODUCT (in alphabetical order)	USEFUL LIFE IN YEARS	RULES
TAPE RECORDERS	8	
TELEPHONE EQUIPMENT	15	
TELEVISION, CLOSED-CIRCUIT	8	
TELEVISION RECEIVERS	6	
TESTERS	15	
TIRES		
– Passenger		– Total depreciation allowance of 75% may be reasonable.
– If imported in usable condition for retreading and no vulcanizing required.		
– If imported in usable condition for retreading and vulcanizing required.		
– Truck, Farm, and Other Equipment		
– If imported for retreading.		– Total depreciation allowance of 75% may be reasonable.
TRACTORS (see Backhoes)		
TRAILERS		
– Boat Trailers	10	
– Commercial	8	
– House Trailers	10	
– U-Haul	8	
TRUCKS, HEAVY-DUTY		
– 10,000 GVW and Over (gross vehicle weight in pounds)	10	– Based on original transaction value.
TYPEWRITERS	5	
VACUUM CLEANERS	10	
VENDING MACHINES (see Coin Operated Machines)		
WASHING MACHINES	15	
WINCHES, TRACTOR MOUNTED	5	
WINDSHIELDS		
– Automobiles and Trucks (see Automotive Parts)		

PRODUCT (in alphabetical order)	USEFUL LIFE IN YEARS	RULES
WIRE ROPE	5	
– Excellent condition, little wear		– Total allowances (for obsolescence, depreciation, and condition) not to exceed 70%.
– Good condition, partially worn		– Total allowances (for obsolescence, depreciation, and condition) not to exceed 80%.
– Poor condition, badly worn		– Total allowances (for obsolescence, depreciation, and condition) may exceed 80%.
YARDERS (see Log Loaders)		

REFERENCES

ISSUING OFFICE –

Origin and Valuation Policy Division
Trade Policy and Interpretation Directorate

LEGISLATIVE REFERENCES –

Customs Act, sections 48 to 53

HEADQUARTERS FILE –

N/A

SUPERSEDED MEMORANDA “D” –

D13-10-1, June 1, 1986

OTHER REFERENCES –

D13-10-2

Services provided by the Canada Customs and Revenue Agency are available in both official languages.

This Memorandum is issued under the authority of the Commissioner of Customs and Revenue.