

3.5 EXECUTION PHASE

EXHIBIT R - Valuation

Document Name	Valuation
Document Number	3.5 R
When/How Used	Used during a multi or single program valuation verification
Created on	March 28, 2003
Last Updated On	January 19, 2005
Document Owner	
Division	Compliance Management HQ
Contact	Contact your local compliance verification office at: http://cbsa.gc.ca/contact/listing/indexpages/index-e.html

Other Stakeholders

The valuation section is being revised. This section was last updated in 2005.

Verification Program - Valuation

COMPANY

FILE NO.

PERIOD

TO

Verification Objectives

For the selected sample, determine if:

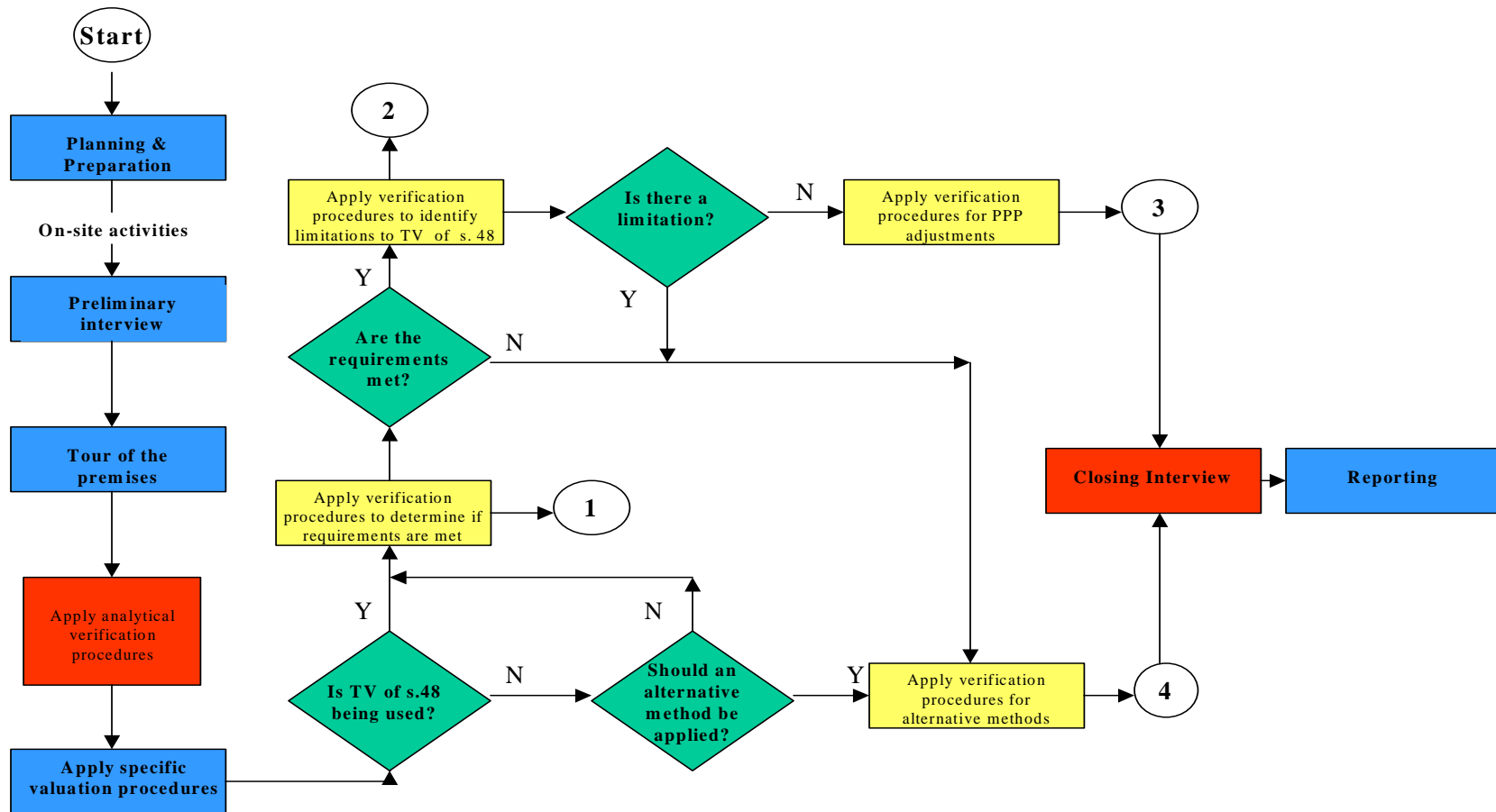
- The proper valuation method is being used as set out in the *Customs Act*.
- The declared value is in agreement with the importer's financial records and documents.
 - In the case of transaction value method verify that the price paid or payable, and the specified additions or deductions have been properly declared.
 - In the case of other methods of valuation, verify that the declared values are in accordance with the *Customs Act*.

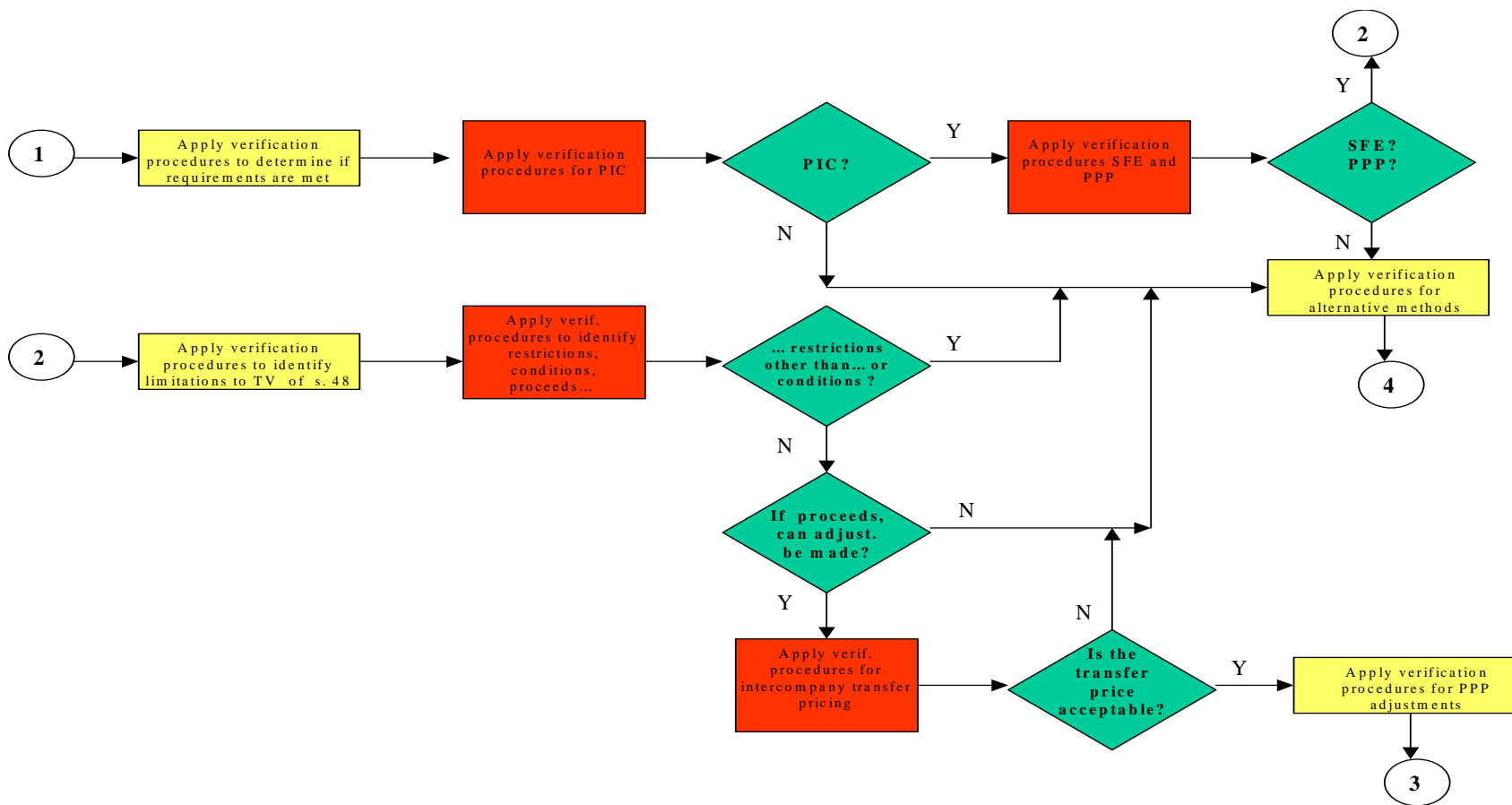
NOTE: *Valuation issues will vary according to the method of valuation.*

Valuation risks exist essentially when:

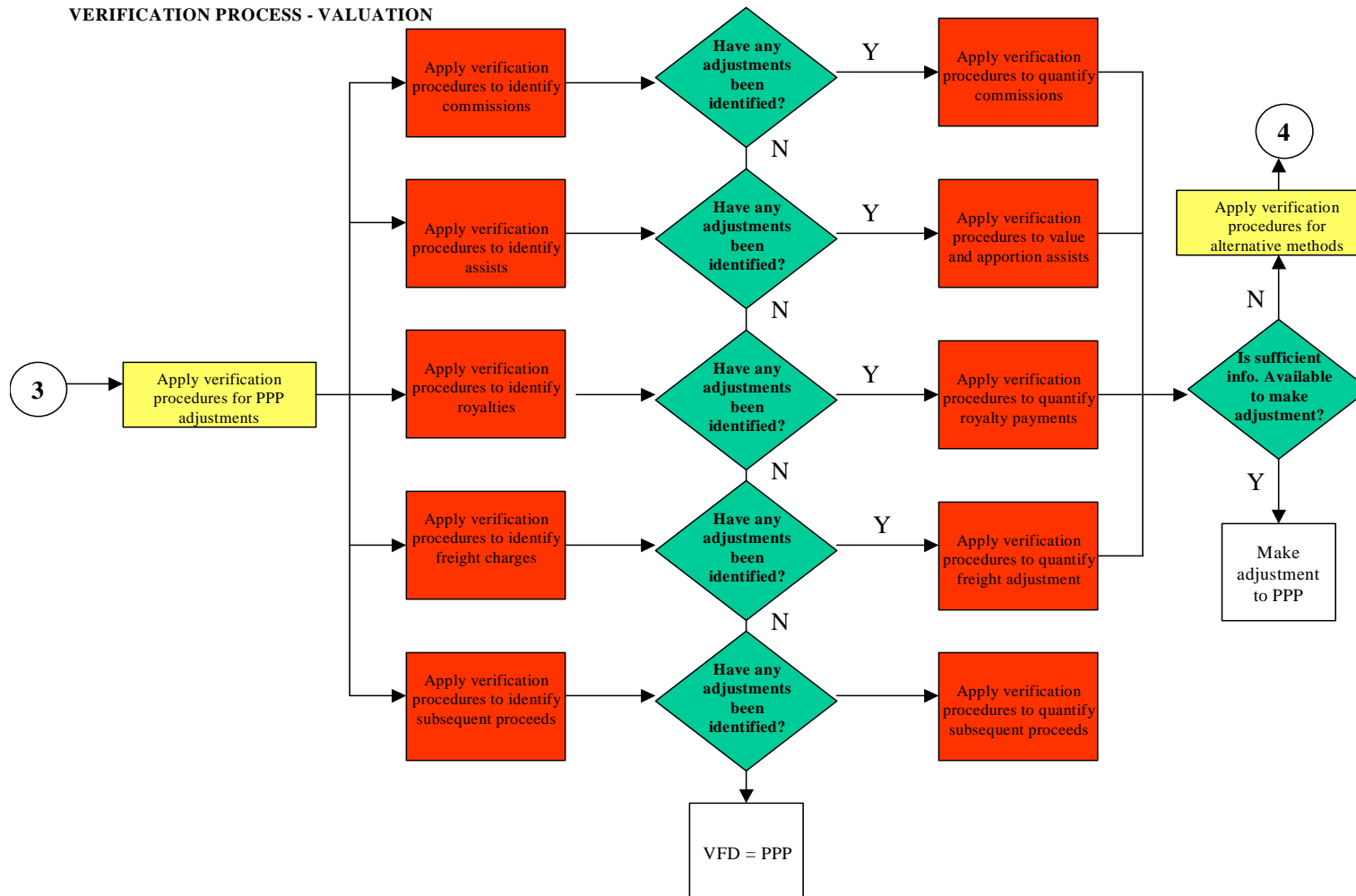
- The value for duty declared does not match the amounts in the client's records.
- The proper method of valuation is not being used.
- Under the transaction value method, the wrong sale is being used or the elements of the price paid or payable or the additions to the price paid or payable are not being included in the value for duty
- Under the other methods of valuation, the value is not calculated in accordance with the *Customs Act*, regulations, and policies.

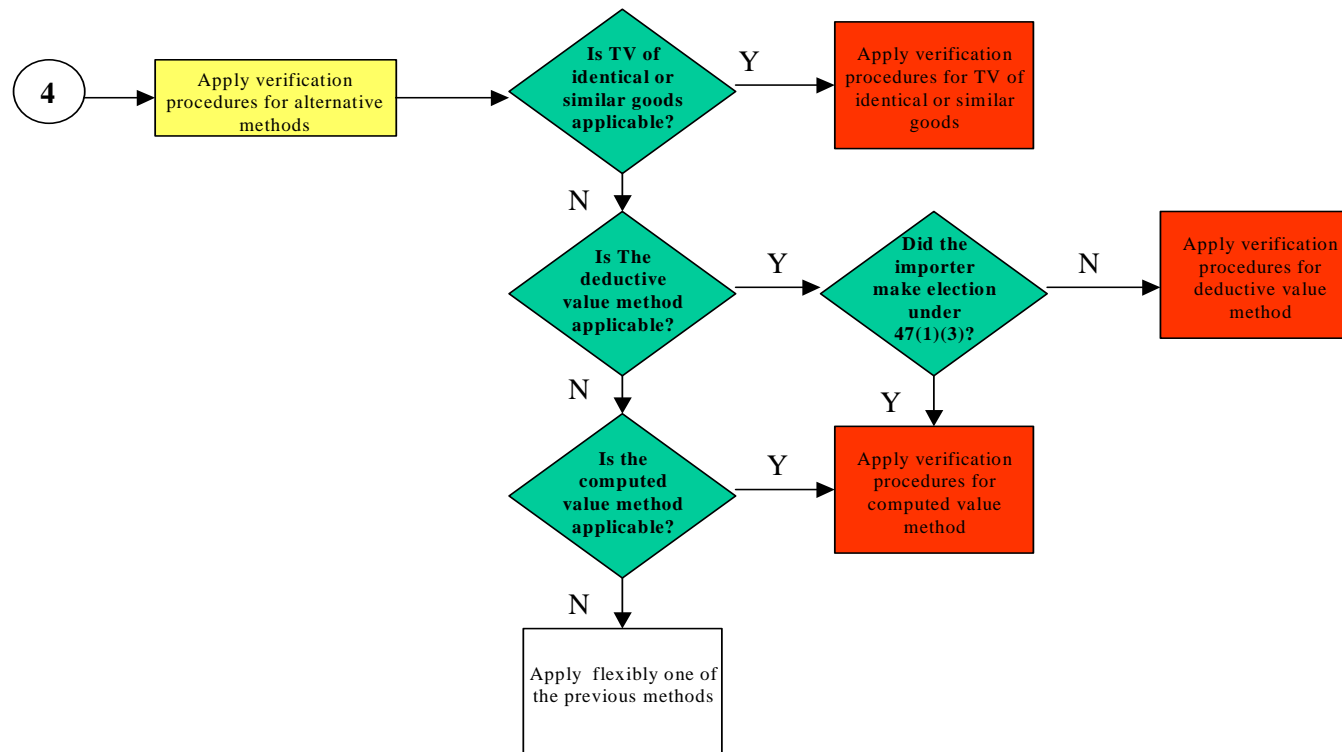
THE VALUATION VERIFICATION PROCESS IS ILLUSTRATED AS FOLLOWS:





VERIFICATION PROCESS - VALUATION





PREPARED BY D. ANCTIL

ORIGIN & VALUATION POLICY DIVISION

It should be noted that because of the relatively low risk associated with the limitations to the use of the transaction value method (restrictions respecting the disposition or use of the goods, condition or consideration for which a value cannot be determined, adjustment for subsequent proceeds,) other than related party transactions, no verification procedures have been designed.

The valuation program checklist includes all related valuation issues that may be identified as risks. For each issue, you will find the specific elements required to conduct the verification. It should be noted that not all the information listed below is needed in all cases. Officers should use their discretion in deciding what information is needed for the issue at hand.

Information obtained from the importer and review of the accounts as outlined in section A, Preliminary Procedures, will prompt the officer as to which verification procedure(s) to follow.

Following the procedures outlined in B and C will determine the proper valuation method and establish which of the various issues must be addressed. The materiality of the steps and findings within these procedures must be considered when conducting the review.

Overview of Valuation Verification Procedures:

- A. Preliminary Procedures
- B. Transaction Value Requirements – Purchaser in Canada
- C. Transaction Value Requirements – PPP and SFE
- D. Limitations - Related Parties
- E. Adjustments to Price Paid or Payable – Commissions
- F. Adjustments to Price Paid or Payable – Assists
- G. Adjustments to Price Paid or Payable – Royalties
- H. Adjustments to Price Paid or Payable – Subsequent Proceeds
- I. Adjustments to Price Paid or Payable – Transportation Charges
- J. Adjustments to Price Paid or Payable – Other
- K. Transaction Value of Identical and Similar Goods
- L. Deductive Value Method
- M. Computed Value Method
- N. Non Resident Importers
- O. Closing Interview

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
A. PRELIMINARY PROCEDURES		
<p>1. Obtain a FIRM report for all importations made during the period under review, sort by vendor, VFD code, origin, and tariff classification.</p> <p>Analyze the FIRM results. Who are the main vendor(s), main products, sources of origin, and duty rates? What is the total value imported and total duty involved? What valuation method(s) is being claimed? Are they declaring a relationship or is one implied through a similar vendor / importer name? For MPV purposes, what segment of the population is being examined and segregate it.</p> <p>Select 1-2 entries that represent the majority of their imports (i.e. principle valuation method, main vendor(s), main product, related party, high dollar amount). Request full supporting document (i.e. purchase order, commercial invoice, proof of payment, bill of lading, freight invoice, etc.) for this pre-sample prior to the review.</p>		
<p>2. During the planning phase, request / obtain and review the following documents:</p> <ul style="list-style-type: none"> -Financial Statements; -Detailed Adjusted Trial Balance; -List of foreign goods suppliers; -Company organization chart showing structure, number of employees, ownership, affiliates, divisions and key personnel; -Names and locations of any related or affiliated companies and their business relationship with respect to imports into Canada; -Flow chart indicating the complete process from the time an order is made by the Canadian purchaser until the product is delivered; and -Explanation as how goods are valued for Customs purposes (valuation method and what the value for duty represents / consists of). 		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
<p>3. Review the documentation provided for the pre-samples selected in part 1 in conjunction with the documentation requested in part 2. Identify any valuation issues such as:</p> <ul style="list-style-type: none"> • Importer is claiming a sale under transaction value but no sale exists (i.e. inter-company transfer, branch operation, consigned goods, etc.). See Section C, Transaction Value – Sale For Export. • Importer is buying goods from their parent but may not qualify as a purchaser in Canada (due to limited presence and responsibilities in Canada). See Section B, Transaction Value – Purchaser In Canada • Importer is declaring production cost or using the compute method. See Section M, Computive Value Method • Importer is claiming a prior sale to which they were not a party as the value for duty (i.e. series of sales). See section C, Transaction Value – Sale For Export • Possible adjustments to the transaction value have been identified through analyze of the commercial invoices, proof of payment, trial balance, importation flow chart, etc. See Section of this Audit Plan. • Related party concerns such as cost being used as an inter-company transfer price. See section C Transaction Value – Sale For Export. 		
<p>4. In the event that there are significant valuation issues and / or a valuation method other than transaction value may be applicable, you should consult with the Valuation Program Unit of the Origin and Valuation Division, Headquarters. Note: On-site audit assistance, particularly for the deductive and computed methods may be available depending on the complexity of the case and it's priority. Please see the spring 2003 OVD Bulletin for further details.</p>		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
B. TRANSACTION VALUE REQUIREMENTS – PURCHASER IN CANADA		
1. Purchaser in Canada (PIC) issues typically occur with related parties where the Canadian operation may not have a significant presence or authority in Canada.		
2. The typical means of qualifying as a purchaser in Canada is for a company to have a permanent establishment through which they carry on business.		
3. The factors to be considered in determining whether someone is “carrying on business” are outlined in paragraphs 10-13 in Memorandum D13-1-3.		
Permanent Establishment « Carrying on Business » [2.1(b)]		
<p>1. Determine whether one or more employees in Canada have been granted the general authority to contract on behalf of the business entity without the approval of another person outside Canada. Consider the following factors:</p> <ul style="list-style-type: none"> • Who negotiates the resale terms of the goods sold in Canada; • Who has been granted the authority to contract purchases of goods and services inside and outside Canada, including sales for export to Canada; • Who negotiates human resource issues for the business entity in Canada; and • Who has the authority to make the necessary withdrawals, issue cheques, and other such activities to process payment of goods and services acquired or used by the business entity in Canada. 		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
<p>2. Obtain and examine the following documents:</p> <ul style="list-style-type: none"> • Copies of contracts entered by the person located in Canada; • A sample bank statement and corresponding; cancelled cheques • Warranty contracts; • Insurance policies; • Minute book; • Banking resolutions; • Instrument of Incorporation (copy); • Register of Directors; • GST Registration; • Job description for most senior officer in Canada • Copies of offers of employment and letters of dismissal; • Property taxes; and • Rent agreement 		
<p>3. Determine the extent to which the business entity's activities are conducted in Canada by determining the following:</p> <ul style="list-style-type: none"> • Where is payment for the goods made? • Who pays for the goods, how, from where, from which account? • Who determines and pays Canadian salaries? • Are purchase orders solicited in Canada? • How and whom determines the Canadian selling price? • Are records maintained in Canada • Who negotiates the purchase and/or lease agreements for Canadian premises? How are the quantities ordered and imported determined? • Is inventory maintained in Canada? • From the Register of Directors, determine their function in the decision making of the company, in particular, Canadian named directors. • Who is responsible for the provision and costs of after-sale services, repairs, and/or warranties? • Does the Canadian entity file income tax returns? • Are bank accounts for the business entity maintained in Canada? 		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
<ul style="list-style-type: none"> • Determine who is the GST registrant (United States / Canada) Obtain copies of GST returns and compare to sales on income statement. • Determine if responsibility for risk, damage or loss is the responsibility of the Canadian operation by reviewing insurance policies. 		
4. If it is determined that the person is carrying on business in Canada through a permanent establishment, then the person will be considered a purchaser in Canada pursuant to paragraph 2.1 (b) of the Valuation For Duty Regulations.		
5. If no, determine whether the company qualifies as a non-resident purchaser in Canada under the provisions of 2.1(c) of the Valuation For Duty Regulations.		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
In situations where the person is a “non-resident” importer (NRI) [2.1(c)]:		
1. Examine purchase orders and other documentation to determine whether the NRI has directed that the goods be sent to Canada for his own account and risk.		
<p>2. Verify that the NRI has not entered into an agreement to sell the goods to a resident in Canada prior to purchasing the goods (the current policy concerning this paragraph is under review) by examining the following information and documentation:</p> <ul style="list-style-type: none"> -sales contract (front & back); -distribution and other similar agreements; -invoices; -purchase orders from Canadian customers (front and back); - order confirmations issued by the importer to the Canadian customer (front and back); -bills of lading; -freight invoices; -inventory levels compared to sales volume; -cross dock and pick and pack situations; -proof of payment; -correspondence files; -company reports; -customs broker contract; -credit memos (sales returns and allowances); -accounts receivable; -flowchart the sales and collection cycle (from initial customer to final billing); and -Canadian price lists (including discount and freight schedules) 		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
<p>3. Determine whether the goods were destined for Canada when they were purchased, without the possibility of diversion by examining the following information and documentation:</p> <ul style="list-style-type: none"> • details on the transportation arrangements and delivery terms; • whether the goods have been manufactured in accordance with Canadian specifications (e.g., bilingual labelling, marking, health and welfare, etc); • purchase orders and correspondence files for shipping instructions; and • Review the customs broker contract to determine which entity (Canada / United States) has granted power of attorney to the broker and determine which entity is being billed. 		
<p>4. If yes, the person qualifies as a Purchaser in Canada under 2.1(c) of the <i>Valuation For Duty Regulations</i>;</p>		
<p>5. If no, determine if the goods are pre-sold to another purchaser in Canada;</p>		
<p>6. If no, apply an alternative method of valuation. Refer also to Section D.</p>		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
C. TRANSACTION VALUE REQUIREMENTS – SALE FOR EXPORT, PRICE PAID OR PAYABLE		
<p>1. Examine judgmental sample of entries selected at the planning stage from the FIRM report. Trace samples: from import documents, and the books of accounts (step 3.a). Ask controller to perform a complete walkthrough of at least one importation.</p>		
<p>2. a. For all transactions selected as part of the audit sample, agree the following documents to the records:</p> <ul style="list-style-type: none"> • commercial invoice; • purchase order; • CCI and B3; • proof of payment; and • Freight invoice and bill of lading. <p>Note: Where payment is for multiple invoices, trace all invoices paid back to FIRM importations. This procedure may detect any possible double invoicing, deposits, etc.</p>		
<p>2.b. Also, for all transactions selected:</p> <ul style="list-style-type: none"> • Confirm method of valuation being used; • Identify the parties involved in the transaction; • Determine if there is a sale; • Verify that the sale is for export to Canada; • Examine the dates shown on the purchase orders and/or commercial invoices and compare with dates of importation; • Determine the price paid or payable for the imported goods; and • Be wary of evidence of other payments made or to be made, directly or indirectly, in respect of the goods by the purchaser to or for the benefit of the vendor. Such payments may include: <ul style="list-style-type: none"> -Storage expenses -Credits in respect of earlier transactions -Warranty payments -Settlement of debt 		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
<ul style="list-style-type: none"> -Price escalation clauses -Export duties -Quota payments and discounts (refer to section 4a) -Confirming commissions 		
<p>2.c. Also, be alert for irregularities such as:</p> <ul style="list-style-type: none"> • Invoices ending with –A or –1, suggesting a second –B or –2 invoice. • Payment to the vendor exceeds invoice amount and the difference cannot be reconciled to other importations • Unusually payments for services such as packing, financing, handling, or commission. (i.e. 30% commission paid separately to the vendor or 50% for packing and financing charges) 		
<p>3.a. Select a (judgmental) sample from the accounting books (accounts payable, purchases...) of approximately 10 to 15 transactions.</p>		
<p>3.b. For all transactions selected from the accounting records as part of the audit sample, agree the amount recorded in the books to:</p> <ul style="list-style-type: none"> • commercial invoice; • purchase order; • CCI and B3; and • proof of payment. • freight invoice and bill of lading 		
<p>3.c. For all transactions selected, follow the same steps as # 2.a and 2.b explained above.</p>		
<p>3.d. Prepare flow chart of importation process. Ask importer to review flow chart to ensure you understand the importation process.</p>		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
Analytical Procedures (some procedures may be done during the planning phase)		
<p>Agree/total cost of goods sold from trial balance amounts, using importer-prepared reconciliation as a basis, and trace to financial statements to ensure the accuracy and reliability of the figures.</p> <p>Compare total cost of goods sold as per trial balance and financial statements to VFD declared. Ask importer to explain any discrepancies.</p> <p>If discrepancies (see 3 above), consider the following:</p> <ul style="list-style-type: none"> -Low value shipments may not be captured in FIRM; -Timing differences for goods in transit and differences in reporting date versus accounting date for CBSA; -Cost of goods sold may include manufacturing inputs and domestic sourced goods -Materiality of the discrepancy 		
<p>Note: If the importer sells both domestic and foreign sourced goods, you could select 2-3 main foreign suppliers and then reconcile the amounts recorded in the accounts payable sub-ledger for these suppliers to the FIRM VFD by vendor. If goods from multiple vendors are consolidated and reported as coming from one vendor, this reconciliation is not possible.</p>		
Quota payments		
<p>4a. Ask the importer if they have paid for any quota during the period under review.</p> <ul style="list-style-type: none"> • If yes, determine whether the quota charges were paid to the vendor. If yes, determine if the charges were included in the value for duty of the imported goods: <ul style="list-style-type: none"> I. Obtain quota invoice, proof of payment and B3. II. Ensure that the declared amount agrees to the amount paid to the quota supplier. 		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
<p>If the importer states that <u>no</u> quota is purchased, during the course of the review of the general ledger transactions and the analysis of the audit sample, be alert for any evidence of quota charges. Review contracts, correspondence files of agents and suppliers.</p>		
<p>4b. Three different situations can happen in respect of quota payments:</p> <p>1. The exporter/vendor has paid for the quota</p> <p>In this case, the exporter/vendor will recover this cost from the purchaser, whether through inclusion in the selling price or through separate billings.</p> <p>In situation I the quota is to be added to the price paid or payable.</p> <p>2. The importer has acquired the quotas</p> <p>The payment will be reflected in the accounting records.</p> <p>3. The importer through his agent paid for the quota and is free to choose the vendor</p> <p>The payment will not be shown on the supplier's invoices but will be covered by the commission paid to the agent or by separate payment to the agent.</p> <p>The quota in this case is not made for the benefit of the vendor and does not form part of the price paid or payable.</p>		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
Related Parties		
By focusing on all payments (price paid or payable) and adjustments under 48(5), the transaction value can be applied. Should an officer have concerns that the relationship may have influenced the price, after having completed the following steps, we suggest that you consult with the Valuation Program Unit of the Origin and Valuation Division at HQ.		
5. Examine documentation for all inter-company transactions for the period under review to determine the nature of payments being made between related/affiliated companies. Document the nature and amount of such payments.		
6. Ensure that all payments to the vendor have been identified and all adjustments to the price paid or payable in accordance with subsection 48(5) have been made (refer to verification sections E-J)		
To understand, examine, support and verify the inter-company price declared (i.e. PPP), some or all of the following may be performed.		
7. Contact International Tax to determine if they have previously audited the transfer price. If yes, obtain a copy of the results of their audit. (This should not be done until a communications protocol/system is in place)		
8. Determine if the importer has entered into an Advance Pricing Agreement (APA) with the International Tax Directorate. (see number 7 above)		
9. Determine if there is a formal corporate policy. If yes, obtain operating manuals and/or policy statements or directives.		
10 Determine if a transfer price study was recently performed by the company or by external professionals. If yes, obtain a copy of the study.		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
<p>11. If a transfer price study is available:</p> <ul style="list-style-type: none"> • Review transfer price study to determine the transfer price method used; • Ensure that the transfer price study is Canadian oriented; • Ask importer if a copy of the functional analysis performed for the transfer price study is available and obtain a copy; • Confirm that no material changes occurred since the transfer price study was performed; • Ensure that the price paid or payable that serves as the basis for determining the transaction value is the transfer price reflected in the transfer price study; and • If the transfer price study was based on comparables, ensure that the company has been updating the comparable figures on a regular basis. 		
<p>12. If there is no written corporate policy or transfer pricing formula, obtain an explanation of how the transfer price was established. Ensure exploration is documented and confirmed (by the importer) to be accurate.</p>		
<p>13. In discussions with audit team, determine if the transfer price is supported.</p>		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
<i>D. LIMITATIONS – RELATED PARTIES</i>		
<p>Generally, the transaction value method will be accepted. However, where we have 3rd party data (e.g. complainant) that supports an influenced price between related parties, we may apply the test values and if a limitation exists, apply another valuation method (it should be noted that test values in general are rarely applied) (we currently are not rendering decisions concerning price influence due to relationship. Also, an industry complaint is not indicative of price relationship, i.e. price may be lower due to purchaser taking on additional marketing functions, etc.</p> <p>It is not the responsibility of CBSA to perform test value calculations. Rather, this is an importer responsibility. The importer should compute test values when price influence due to relationship is suspected. We can then verify whether the calculations are correct. This would result in less resources being utilized, as the onus is clearly on the importer to provide these test values. More policy development is required in this area prior to implementing this requirement).</p> <p>In all cases where it is suspected that the price paid or payable is influenced by relationship the verifier must consult with the Valuation Program Unit of the Origin and Valuation Division.</p> <p>Memorandum D13-4-5 contains information on price influence.</p>		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
<i>E. ADJUSTMENTS TO PRICE PAID OR PAYABLE – COMMISSIONS</i>		
1. Determine if the transactions involved the use of a middleman (e.g. selling agent, buying agent, broker). If yes, determine what was the role of this middleman.		
2. Browse through the trial balance and the general ledger of the company in order to identify an account(s) for commissions. Obtain the general ledger detail report for the commission account(s).		
3. Enquire about the nature of the commissions paid.		
4. List the agents used abroad to purchase goods imported to Canada.		
5. Obtain copies of any agency agreements/contracts.		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
<p>6. For each agent, select a sample of transactions and:</p> <ul style="list-style-type: none"> • Agree the amount recorded in the accounting records (commission account) to the commission invoices and proof of payment to ensure recorded amounts are accurate and that there are no items on the commission invoice that have not been recorded in the ledgers; • If payment is by letter of credit (L/C), scan L/C for items of interest: what is being paid for - goods? assists? freight? Who is being paid - the agent or the supplier? Is the L/C transferable? revocable? What are the terms of the L/C - at sight? Is L/C cashed before or after goods are produced? Before they are shipped? Note any items of interest and ensure details are consistent with other supporting documentation (commercial invoice, purchase order, freight invoices, bill of lading, etc.); • If the agent is invoicing for other items, determine whether these items have been included in the VFD; 		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
<ul style="list-style-type: none"> • Obtain copies of manufacturer's invoice and agree it to the commission invoice to ensure that the agent is not applying an additional mark-up to the cost of the goods; • Determine if the manufacturer or the importer is paying the agent's commission; • Determine if the commission rate is reasonable through discussions with members of audit team. If it appears high, determine if the agent is being compensated for assists or quota, etc. that would otherwise be dutiable but are being hidden in the commission rate; and • Determine if the agent is taking risk in the goods by examining whether the agent is paying for the goods and subsequently being reimbursed by the importer, or if the importer is paying the manufacturer/supplier directly. 		
<p>7. Request and examine correspondence file with agent:</p> <ul style="list-style-type: none"> • look for evidence of agent not always acting in best interest of the purchaser; • be wary of evidence suggesting impediments preventing the agent from acting in the interest of the principal; • look for evidence that agent related to vendor; • is there evidence that the agent is financially profiting from the sale of assists or quota (An agent may profit on the transaction aside from the commission as long as disclosure of the agent's interest is made to the principal and the principal decides to continue with the relationship after such disclosure.)? 		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
8. Total, for the period under review, the commissions paid to each agent that you feel may be of a dutiable status.		
<i>OTHER:</i>		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
F. ADJUSTMENTS TO PRICE PAID OR PAYABLE - ASSISTS		
1. Explain Assists to the importer and ask the importer if they or any other company supplied assists to the manufacturer(s).		
2. If yes , determine if the assists have been included in the VFD of the imported goods: A. Is the importer invoiced separately for the assists? B. Who pays for the assists? The importer? Parent company? Agent? C. Examine documentation, which shows how the value of the assists has been declared in the value for duty. For example, is there a separate B3 to declare the assists, or has the importer performed calculations to include the value of the assists in the value of the goods; and D. Obtain proof of payment for the assist under review, in order to determine if there are other items being paid to the supplier that were not declared for CBSA purposes and that might be of a dutiable nature.		
3. If the importer states that no assists are being provided, during the course of the review of the general ledger transactions and the analysis of the verification sample, be alert for any evidence of assists. For example, if there is a payment to a company named XYZ Company, this should be further examined to determine if an assist might be present.		
4. Compare suppliers on FIRM report to supplier list provided by the importer and/or to suppliers in books of accounts. Identify foreign suppliers that are on the list prepared by the importer and/or in books of accounts but not on the FIRM report. Foreign suppliers not listed on the FIRM report may be assists suppliers. Ask importer to provide explanation. Select a sample of transactions involving these suppliers.		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
5. Determine the nature of each assist and note the supplier of the assist.		
6. There may be transportation costs incurred to send the assist to the place where it is used in the production of the imported goods. I. Analyze freight invoices to determine if assists have been shipped: -from Canada to a foreign manufacturer for use in the manufacture of the imported product; -from one foreign country to another foreign country to be used in the manufacture of the imported product. II. Quantify the transportation costs associated with the assist.		
7. Examine purchase orders to determine if there is any mention of assists to be provided.		
8. Obtain correspondence files with suppliers and agents (fax, telex, product record files, specification sheets, etc.) and search for any indication of assists being provided or arranged for.		
9. Enquire from executives of importer if they utilize the services of Cut Make and Trim (CMT) operations. If yes, review a sample of these transactions by examining commercial invoices, proof of payment, PO, and B3 forms to ensure that material costs have been correctly added to the CMT charges in declaring the VFD.		
10 Review general ledger accounts to detect samples purchased by the importer outside of Canada in order to design and manufacture his own lines of products abroad.		
11. Verify certain Canadian supplier invoices to determine if there is any indication that items are being shipped abroad which might constitute an assist.		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
12. Determine if the company has any manufacturing operations in Canada and identify in the structure of the chart of accounts the accounts that relate to manufacturing operations outside of Canada.		
13. Use best available means to find unrecorded costs such as assists for support facilities. For example: <ul style="list-style-type: none"> • Inquire where Research and Development related to the imported goods is done; • Review published corporate structure to determine the existence of Research and Development centres or other service centres; • Determine where Research and Development costs are in corporate accounts and how they are accumulated and allocated; and • Find out if there is any written corporate policy or directives, which identify how Research and Development costs are assigned. 		
14. Determine the value of assists		
15. If produced, determine how production costs arrived at.		
16. Determine the method of allocation / apportionment of the value of the assists.		
Other:		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
G. ADJUSTMENTS TO PRICE PAID OR PAYABLE– ROYALTIES		
To identify royalties or license fees:		
1. Through review of royalty or licence agreements and communication with the importer or their representative, determine the existence of any copyright, trademark, trade name or patent utilized by the importer, or any right to distribute or market retained by the importer.		
2. Determine if the importer makes any payment with respect to the items included in (1) above. Determine if an “all-in-fee” payment is made in respect of different rights, or if different payments are made in respect of different rights.		
3. Identify company accounts through which payments/inter-company transfers are made. Verify that payments from these accounts are in respect of imported goods.		
4. Review the importer trial balance and general ledger to identify any other accounts from which royalties and licence fees are paid. Obtain the general ledger detail report for these accounts.		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
To establish the dutiable status of the royalty or license fee payments:		
1. Refer to the royalty/licence fee agreement. Determine the exact nature of the payment, (i.e., what is being paid for, how it is derived/calculated, how and when it is paid, to whom it is paid)		
2. Discuss the rights and obligations identified in the agreement with the importer officer or representative most familiar with its content.		
3. Determine if the licensee is following the express terms included in the agreement.		
4. Confirm that the payment is a royalty or licence fee payment as provided for in sub-paragraph. 48(5)(a)(iv) a royalty or licence fee payment made in respect of imported goods and as a condition of sale of the goods for export to Canada. To satisfy the condition of sale requirement, the vendor's prerogative to refuse to sell the goods or repudiate the contract of sale must be explicitly indicated in the documentation between purchaser and vendor or in the royalty/license agreement where the vendor is the licensor of the goods.		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
5. Determine if any standing purchase order with the vendor maintained by the purchaser includes a notation that would entitle the vendor to repudiate the sale if the licensee fails to pay the royalty or licence fee. If such a notation is identified, the amount of royalty fee payment made in respect of the goods is an addition to the price paid or payable of the goods per subparagraph 48(5)(a)(iv).		
6. Select a small sample of transactions of imported licensed goods to verify if commercial invoices include a notation indicating that if the licensee fails to pay the royalty or licence fees the vendor will refuse to sell the goods or repudiate the contract for their sale. If such a notation is identified, the amount of royalty fee payment made in respect of the goods is an addition to the price paid or payable of the goods per subparagraph 48(5)(a)(iv).		
7. If the vendor is the licensor of the goods or is related to the licensor, verify if the license agreement includes any reference to the vendor/licensor's right to refuse to sell the licensed goods or repudiate the contract of sale if the licensee fails to pay the royalty or licence fee. If such a reference is identified, the amount of royalty fee payment made in respect of the goods is an addition to the price paid or payable of the goods per subparagraph 48(5)(a)(iv).		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
8(a) If the payment made by the purchase is a bundled payment that includes an amount for royalties or licence fees, verify that the purchaser can accurately apportion the amount of payment between the royalties or licence fees and the other requirement(s) for payment. If a payment is identified for other than royalties or licence fees, consider its applicability under an alternative provision of paragraph 48(5)(a) or under subsection 45(1).		
8(b) If the payment cannot be apportioned satisfactorily, the transaction value method cannot be applied an alternative valuation method must be identified.		
8(c) If the payment can be apportioned satisfactorily, the amount apportioned as royalty or licence fee payments may be identified as an addition to price paid or payable in accordance with the procedure indicated in (5) or (6) above or (7) above if the vendor and licensor are related or are the same entity. The amount apportioned as other than royalties or licence fees should be considered under the alternative verification procedures for additions to price paid or payable under paragraph 48(5)(a) or as an element of price paid or payable under subsection 45(1).		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
H. ADJUSTMENTS TO PRICE PAID OR PAYABLE – SUBSEQUENT PROCEEDS		
1. Examine documentation for all inter-company transactions for the period under review to determine the nature of payments being made between related/affiliated companies. Document the nature and amount of such payments.		
2. Obtain a copy of Schedule 9 of the T2 corporate income tax return, which lists all related and associated corporations.		
3. Obtain a copy of income tax schedule T106, which lists all related party transactions.		
4. Obtain a copy of the management agreement if applicable.		
5. Review correspondence file and contracts with related party manufacturers/suppliers		
6. For management and administration fees, research and development expenses, and marketing and promotional fees, obtain a breakdown of what elements are covered under the payments. For example, advertising; use of legal/accounting/computer system, etc. Review the nature and method of management payments (i.e. As a percentage of gross/net sales)		
7. Examine the method of allocation for the management and administrative fees and research and development expenses.		
8. Determine whether the management fees and/or administrative fees are reasonable, justified and for actual services rendered by tracing to source documents and proof of payment.		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
<p>NOTE:</p> <p><i>The portion of the management and administrative fees that are allocated to the importer based on the resale (a percentage of sales), disposal or use of the goods that is not justified, reasonable, or for actual services rendered is considered a subsequent proceed under subparagraph 48(5)(a)(v). (This policy is currently under review. Issues to consider include the International Tax implication of a payment being a “deemed dividend”, as well as the appropriateness of considering unsupportable management fees a subsequent proceed.</i></p>		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
<i>I. ADJUSTMENTS TO PRICE PAID OR PAYABLE - TRANSPORTATION CHARGES</i>		
1. Browse through the trial balance and the general ledger of the company in order to identify the freight account(s). Obtain the general ledger detail report for the account(s).		
<p>2. Select approx. 3-5 freight transactions from the accounting records and note the following:</p> <ul style="list-style-type: none"> I. Describe the method of transport for the goods - F.O.B. or C.I.F., etc. II. From shipping documents, note the location and date of direct shipment of the goods to Canada; <p>NOTE: Any reasonable date of direct shipment that the importer relied on for exchange rate purposes (i.e. invoice date) should be accepted if it is necessary to substantiate / validate that the proper date has been declared. However, all unreasonable dates (i.e. each Wednesday) should be considered an error.</p> <p>The date of direct shipment need only be verified if there would be a material or substantive impact on the value for duty (e.g. the place of direct shipment is incorrect for purposes of determining transportation charges or any rate fluctuation would result in a substantive effect on the value or using the wrong currency exchange).</p> <p>There are a number of documents that the importer may rely on based on the information relative to the movement (direct shipment date) of the goods. These documents might be one of the following: bill of lading, PO, freight invoices, commercial invoices, and confirmation of sale.</p> <ul style="list-style-type: none"> III. If there are inland freight charges, determine if they have been included in the value for duty. 		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
3. Examine through the disbursement records or accounts payable for the freight charges actually paid to determine that any amounts deducted as C.I.F. charges are accurate; to determine whether the importer is receiving any rebates; to determine whether there are any additional charges, which may be of a dutiable nature.		
4. Obtain copies of all insurance contracts (policies) on exported goods and verify amounts claimed.		
5. Compare terms of sale on shipping documents with terms quoted on invoices and/or contracts. Determine point where the title changes hands as well as risk of loss.		
6. Determine the nature of any warehousing or storage expenses, domestic or foreign. Determine the reasons for the storage with shipper's agents for purposes of transshipment or is there a new point of direct shipment. Verify amounts actually paid against amounts claimed.		
7. Where shipping agents are utilized, i.e., freight forwarders or freight consolidators obtain copies of bills and compare all amounts with those on the actual shipping documents.		
OTHER:		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
J. ADJUSTMENTS TO PRICE PAID OR PAYABLE – OTHER		
1. Construction, erection, expenses incurred after goods are imported: <ul style="list-style-type: none"> Obtain an explanation of any costs or charges included in the invoiced selling price incurred for the construction, erection, assembly or maintenance of the goods and/or any technical assistance in respect of the goods after importation, purchase order and agreement and all related correspondence. 		
2. Duties and taxes deducted: <ul style="list-style-type: none"> Obtain amounts for any Canadian duties and taxes included in the price paid or payable for the goods under review. Purchase order and agreement and all related correspondence. <p>Note: any actual amounts under the <i>Customs Act</i> can be deducted. For example, if the duty rate is 10%, the importer may deduct 9.09% of the selling price ($1 / (1 + 10\% \text{ duty rate})$). This deduction should only be effected after deductions for freight / erection has been made. Also, GST payable at the time of importation may only be deducted by a non-registrant for GST purposes.</p>		
3. Rebate after importation: <ul style="list-style-type: none"> Obtain full details regarding any discounts, rebates or any other decrease in the price extended to the purchaser by the vendor in respect of the goods under review. Purchase order and agreement and all related correspondence. <p>Note: refer to paragraph 48(5)c) of the <i>Customs Act</i></p>		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
<p>OTHER: Describe any other transaction value audit procedures performed during the course of the audit, as applicable.</p>		
<p>NOTE: <i>The purchaser may be receiving a cash discount for early payment but not declaring the discount at the time of importation. This is not to be treated as an error but should be pointed out to the importer as a possible benefit.</i></p>		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
K. TRANSACTION VALUE OF IDENTICAL OR SIMILAR GOODS		
1. Find a transaction value of identical or similar goods exported at the same or substantially the same time.		
2. Obtain price list and establish if it is a bona fide price list by tracing to a sample of sales invoices.		
3. Make adjustments for trade level and quantities if necessary.		
4. Look at freight invoices to the place of direct shipment in order to make adjustment for differences in the transportation costs resulting from differences in the mode of transport and in the distance the goods are shipped.		
NOTE: Where the goods being appraised were not sold <i>ad pending a legislative amendment to correct the Phrase "as the goods being appraised and were sold" found in Sections 49(1) and 50(1) of the Act, CBSA will not recommend the use of these valuation methods. However, if the Importer requests to use this method in the correct hierarchy, we will not deny the request.</i>		
NOTE: <i>the next two methods of valuation are the deductive value method and the computed value method. if the exporter is not the manufacturer, these two methods require information that the importer cannot usually provide. they are more theoretical than usually applied, but must be considered. Procedure N will outline a flexible application under the residual method in situations where a NRI transfers/import goods to Canada on speculation or is not a valid purchaser in Canada. The origin and valuation division is currently developing and consulting on this policy. Please contact the Origin and Valuation Division for any assistance</i>		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
L. DEDUCTIVE VALUE METHOD		
<p>Price per Unit:</p> <p>1. Determine, for each product (where applicable), the selling price at which the greatest number of units is sold. Ensure that the sales are made to persons at the first trade level after importation, and that this person is not related to the importer and that the person has not provided any assists. Ensure the selling price is exclusive of GST.</p>		
<p>Commission or Profit and General Expenses (51(4)(a)):</p> <p>2. Determine the amount for commissions, which is generally earned or reflected on a unit basis in sales of imported goods of the same class or kind in Canada.</p>		
<p>3. Or, when no commission is paid:</p> <ul style="list-style-type: none"> Compare the importer's amount for profit and general expenses to the amount for profit and general expenses generally earned in connection with sales in Canada of goods of the same class or kind. (the procedures for identifying such amounts are currently under review) 		
<p>4. Or, when no commission is paid and the amount for profit and general expenses generally earned is not available:</p> <ul style="list-style-type: none"> Determine the general expenses that have been incurred in Canada in selling the imported goods. Verify that these expenses have been incurred in Canada by tracing a sample to supporting commercial documents. 		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
5. For management and administration fees and research and development expenses, obtain a breakdown of what elements are covered under the payments. Examine the method of allocation for the management and administrative fees and research and development expenses. Determine if the Canadian operations have been allocated their fair share of all management and administrative expenses (this procedure is relevant when procedure #4 is applied).		
6. If an amount for profit and general expenses (mark-up) is already included in the transfer price to the Canadian business entity, determine if this amount for profit and general expenses resembles an arm's length amount. Refer to Related Party Transactions section of this document. (how is this done?)		
7. If importer is a GST registrant, no deduction from the selling price should be allowed for GST paid on any purchase transaction (i.e. CRA; hydro, photocopier lease payments, etc.)		
8. Examine the deductions for duties, brokerage and transportation		
9. Tabulate and express all deductions from the price per unit as a percentage of sales in Canada.		
10. In accordance with the Armstrong and Tootsie Roll CITT and Federal Court decisions, an amount for profit must be allowed under the deductive method. Ensure that the amount claimed for profit and general expenses are reasonable.		
NOTE: <i>The Origin and Valuation Division is currently discussing alternative approaches to deal with non-resident importers, who import goods on speculation (i.e. no sale for export has occurred) We strongly recommend contacting the Origin and Valuation Division to request the assistance of a Valuation Audit Advisor before undertaking a deductive value calculation.</i>		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
M. COMPUTED VALUE METHOD		
<p>1. Determine the production cost of the imported goods. Ensure that the following costs, charges and expenses are included:</p> <ul style="list-style-type: none"> • materials employed in producing the goods being appraised; • the production or other processing of the goods being appraised; • packing costs and charges referred to in subparagraph 48(5)(a)(ii) of the <i>Customs Act</i>; • the value of goods and services provided free of charge or at a reduced cost (assists); and • any costs, charges and expenses incurred by the producer in respect of engineering, development work, art work, design work, plans or sketches undertaken in Canada. 		
<p>2. Ensure that the above costs, charges, and expenses are supplied by or on behalf of the producer of the goods and prepared in accordance to the Generally Accepted Accounting Principles (GAAP) of the country of production.</p>		
<p>3. Determine the amount for profit and general expenses to be added to the cost of production of the imported goods. Ensure that this amount is that which is generally reflected in sales for export to Canada of goods of the same class or kind as the goods being appraised made by producers in the country of export. (the procedures for identifying such amounts are currently under review)</p>		
<p>4. If the producer's figures for profit and general expenses taken together are lower than usually reflected in sales for export to Canada, determine if there are valid commercial reasons, in terms of the usual marketing or pricing practices of the branch of industry concerned, for the producer taking a amount for profit and general expenses. (the procedures for identifying such amounts are currently under review)</p>		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
5. For the purpose of calculating the producer's amount for profit and general expenses over costs, the value of goods or services provided free of charge should not be included in the cost of production of the goods. The value of these goods and services should be included in the cost of production only after the amount for profit and general expenses as been calculated.		
6. The value of an assist provided at a reduced cost is to be treated as above, for the portion of the value provided at no cost to the producer. The portion of the value for which the producer incurs a cost or charge is to be added to the cost of production when calculating the amount for profit and general expenses over cost.		
<p><i>OTHER:</i></p> <p><i>The calculation of the compute method requires a significant understanding of cost accounting, financial statements, accounting issues, and records.</i></p> <p><i>We strongly recommend contacting the Origin and Valuation Division to request the assistance of a valuation audit advisor before undertaking a computed value review.</i></p>		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
<i>N. NON-RESIDENT IMPORTERS</i>		
1. Further to procedure B, <i>Transaction Value Requirements –Purchaser in Canada</i> , you may have determined the importer does not qualify as a purchaser in Canada or operate a permanent establishment in Canada; or You may have determined from preliminary business case information that the importer is currently established as a non-resident importer (imports goods into Canada on their own account without a prior sale to a purchaser in Canada.		
2. The information gathered in procedure B, supplemented with information gathered specific to non-resident importers, will provide the database to determine the method of doing business in Canada.		
3. Determine the sale that caused the goods to be imported into Canada.		
4. Determine the location of the importer's head office and the location of the records.		
5. Obtain: <ul style="list-style-type: none"> • The Agreement to Maintain Books and Records outside of Canada; • Foreign vendor list; • List of importer numbers and names; • Additional financial data specific to the Canadian operations; • A list of Canadian importers and their account numbers; • A copy of the NRI's accounts receivable ledger related to their Canadian importers only; • A price list and terms of payments for Canadian customers; and • A sales report on all Canadian sales for the period under review. 		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
<p>6. Follow the verification steps outlined in procedure C, to determine the appropriate valuation method:</p> <ul style="list-style-type: none"> • Where there is a sale to a Canadian customer prior to the NRI importation of the goods, the transaction value method should be considered as the primary basis of appraisal. • The next two methods of valuation, Identical and Similar Goods Methods, must be omitted pending amendment of the current legislation to correct the phrase “as the goods being appraised and were sold”, which renders the methods as inapplicable. • If the importer can provide information specified in Section 51 of the <i>Act</i> and in particular the “profits earned and expenses incurred in Canada” in accordance with 51(4)(a)(ii) the deductive valuation method may be considered. • The importer may use the computed value method if they can provide the information specified in Section 52 of the <i>Act</i> and in particular the “profit figures relating to sales to Canada”. Normally where the importer produced the goods, the information relating to the cost of production and the profit and general expense figures will be available. Where the NRI did not produce the goods, they may not use the computed value method and must resort to the residual value method. <p>Residual Application</p> <p>The NRI will be unable to determine a VFD under the residual method by flexibly applying the transaction method or the transaction value of identical or similar goods.</p>		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
<ul style="list-style-type: none"> • The NRIs may flexibly apply the deductive value method provided the intent and elements/requirements of the methodology are maintained. (Contact the Origin and Valuation Division for guidance on a flexible application of the deductive method) • The computed valuation method is designed for the producer of the goods. However, when flexibly applied (under the residual method) this methodology may allow the NRI to use the cost of acquisition plus an amount for their profit and general expenses to arrive at a value for duty. The procedure for verification of the computed value method is found in section M of these procedures. (Consult the Origin and Valuation Division for guidance in the flexible application of this method) <p>Note: Memorandum D13-9-1 outlines the policy on the Residual method. When a previous method of valuation is found to be unacceptable, the residual value method cannot be used to accept the value. Under the residual method, the previous methods cannot be disregarded. Examples of how previous methods can be applied flexibly are contained in Memorandum D13-9-1.</p>		

VALUATION VERIFICATION PROCEDURES	DONE BY	REF.
O. CLOSING MEETING		
1. Prepare and distribute an agenda to company representatives in advance, to give them time to prepare for the meeting and to ensure that the appropriate personnel are available to attend.		
2. Take notes during the closing meeting.		
3. Review with the company representatives the verification/audit procedures followed.		
4. Ensure that there is agreement between the team members and the importer on factual matters.		
5. Prepare document for the company officials' signature that includes the following elements: <ul style="list-style-type: none"> • statement of facts made by the company representatives; • the officers' understanding of the statements made by the company representatives; • a list of the documents and/or information which were requested and not yet provided (including time commitments for providing the outstanding documents and/or information); and • a list of the documents and/or information which were requested and that the company declined to provide. 		
6. Discuss with importer the verification/audit findings and their implications.		
7. Prepare working paper for audit file.		