



## Canada: Update to 2012 Customs Tariff Act

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### Summary

Recent changes in Canadian tariff classifications simplified landed cost estimation and administrative processes related to customs declarations for goods whose value does not exceed \$500 and that are imported for personal or non-commercial use. These changes provide a significant benefit for U.S. businesses by easing the uncertainty of purchasing from the United States, providing significant cost reductions, lessening paperwork, reducing liability exposure, and avoiding incorrect tariff classification and calculations that lead to audits and penalties.

Canada's consumers are increasingly buying on-line, providing a significant opportunity for growth in U.S. e-commerce with Canada. According to Statistics Canada, in 2010, Canadians placed nearly 114 million online orders, valued at approximately \$15.3 billion, with 60 percent of orders from vendors in the United States.

### Thousand of Codes, Reduced To Three

In an effort to streamline Canadian import processes, the Canada Border Services Agency (CBSA) implemented new Generic Harmonized System (GHS) tariff codes effective January 1, 2012. The application of the GHS codes simplified the duty calculation and administrative processes of importing goods by Canada-based consumers from foreign mail-order and e-commerce retailers.

Three new GHS codes, also referred to as "tariff baskets", consolidated and grouped together a number of products that have traditionally been classified individually. These GHS codes were developed as a result of consolidating the 50 most common items being imported through the Courier Low Value Shipments (LVS) Program and the three CBSA Mail Centers. The rules for the application are detailed in Chapter 98 of the 2012 Customs Tariff Act.

Under the Tariff Act, thousands of Harmonized System (HS) codes are used as a basis for assessing customs tariff and to satisfy international commitments. This complex system of codes can be challenging to navigate, particularly for small- to medium- sized U.S. firms that are exporting for the first time. If a firm has numerous products to classify, the process of classifying each product can be tedious and increase the risk of misclassification. In the event of a misclassification, CBSA may reassess the duty amount and charges the shipper or importer with the difference and associated penalties. Inability to assess correct duty costs also means uncertainty in the costs of exporting for the retailers and importing for the customers.

Under CBSA's new GHS initiative, the thousands of HS codes are simplified under three GHS codes.

- Goods classified under Chapters 1 to 97 which would be assessed customs duty under the Most Favored Nation rate within 5 percentage points more or less of 20 percent, would be subject to a GHS tariff rate of 20 percent. Goods that fall into this category include bedding, clothing, and footwear.
- Goods classified under Chapters 1 to 97 which would be assessed customs duty under the Most Favored Nation rate within 5 percentage points more or less of 8 percent, would be subject to a GHS tariff rate of 8 percent. Goods that fall into this category include automotive parts, beauty products, foodstuffs, jewelry, musical instruments, sporting equipment, and tableware.

- Goods classified under Chapters 1 to 97 which would be assessed customs duty under the Most Favored Nation rate within 5 percentage points more or less of 5 percent, would be subject to a GHS tariff rate of 0 percent. Goods that fall into this category include automotive engine components and bicycle parts.

(NOTE: The different tariff baskets seem to overlap numerically but are mutually exclusive by goods, according to CBSA. U.S. retailers needing further clarification about the duty rates that apply to their products are welcome to contact the CBSA Trade Services desk at 1-800-461-9999). These GHS tariff codes are applicable to goods whose value does not exceed \$500 and which are imported for personal or non-commercial use. Goods that are not eligible for the new GHS classification include alcoholic beverages, tobacco, tobacco products, and other goods subjected to additional customs duty and taxes imposed by other sections of the Tariff Act.

### Simplified Tariff Schedule Benefits U.S. E-Commerce

The new GHS schedule provides a less complex and more efficient process for importing certain types of products into Canada. U.S. firms that sell online may see the largest benefit. For goods that qualify under the GHS tariff codes, retailers are now able to calculate the landed costs including all fees, duty and taxes of shipping to Canada. With a more predictable tariff schedule, retailers will be able to provide their customers with a more accurate estimate of shipping/customs/tax costs, easing some of the uncertainty of purchasing from the United States for Canadian-based customers. Under the simplified system, importers and shippers benefit with significant cost reductions in less paperwork and with less exposure in terms of liability for incorrect tariff classification and calculations, which will result in less audit actions and penalties.

Additional information about CBSA's new GHS codes can be found at:

- <http://www.cbsa-asfc.gc.ca/trade-commerce/tariff-tarif/2012/01-99/ch98-2012-eng.pdf>
- <http://www.cbsa-asfc.gc.ca/trade-commerce/tariff-tarif/menu-eng.html>

### For More Information

The U.S. Commercial Service in Toronto, Canada can be contacted via e-mail at: [Doug.Jacobson@trade.gov](mailto:Doug.Jacobson@trade.gov); Phone: 416-595-5412 ext. 236; Fax: 416-595-5419; or visit our website: [www.buyusa.gov/canada](http://www.buyusa.gov/canada)

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