



CANADA'S   
**GATEWAYS**

*Your Connections to Opportunities*



CANADA'S TAX AND  
DUTY ADVANTAGES:

*Enjoy the Benefits of  
Foreign Trade Zones...  
Anywhere in Canada!*





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### Disclaimer

*The information provided on the DDP, EDCP and EOPS programs is for general information purposes and does not replace the law as set out in the relevant legislation and regulations.*

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*Cette publication est aussi disponible en français sous le titre :  
Avantages en matière de taxes et de droits au Canada :  
Tirer profit des zones franches... partout au Canada!*



*Is your company involved in  
international commerce?  
Are you considering a new  
investment in Canada?*

Canada not only has a business-friendly tax regime, but also has goods and services tax (GST) and customs duties advantages. For example, Budget 2009 eliminated the tariff on a wide range of machinery and equipment. Canada also offers three of the most export-friendly programs in the world. They are:

- the Duty Deferral Program;
- the Export Distribution Centre Program; and
- the Exporters of Processing Services Program.

In combination with provincial and municipal incentives, Canada can offer the benefits found in foreign trade zones around the world — but with a key difference...

Canada's duty and tax relief can be used **anywhere in Canada**. You can now enjoy the benefits of foreign trade zones *exactly where you need them*. You can apply each or all of these programs to suit **your** business needs.

# Canada's *Trade Advantages*

Canada is one of the world's best places to do business. We offer a beneficial combination of low costs, an educated workforce, a first-class corporate environment and an extremely competitive tax system.

Canada's economy is very stable, and its financial institutions are well regulated and highly credit-worthy. Its excellent R&D infrastructure, robust technological capacity and dependable supply of skilled workers create an advanced knowledge

economy. It is also a gateway to the United States — the world's largest economy — and Canada's efficient transportation and logistics systems make it easy for firms located in Canada to reach the American as well as international marketplace.

Added to these advantages is Canada's Gateways strategy, an advanced approach to international commerce that provides companies with cheaper, faster and more efficient access to global markets.





## CANADA'S BUSINESS TAX ADVANTAGE

The Government of Canada recognizes the significant effect of taxes on international competitiveness and has taken important steps to strengthen Canada's business tax advantage. Canada will have the lowest statutory corporate income tax rate in the G7 by 2012, and the lowest overall tax rate on new business investment (marginal effective tax rate) in the G7 by 2010. In addition, Canada's network of income tax treaties with over 80 countries facilitates cross-border trade and investment by removing tax barriers — for example, through the elimination of double taxation and the lowering of withholding taxes.

Canada also has a value-added consumption tax — the goods and services tax (GST) — which is fully recoverable for businesses engaged in commercial activities and does not apply to exports.

The Government of Canada has taken steps to eliminate the customs duties on manufacturing inputs, machinery and equipment. For example, Budget 2009 eliminated the tariffs on a wide range of machinery and equipment in order to assist industry, and the government is proceeding with further consultations to provide additional broad-based tariff relief in support of Canadian business.

## CANADA'S TAX AND DUTY ADVANTAGES:

# *Enjoy the Benefits of Foreign Trade Zones... Anywhere in Canada!*

If your company is involved in international trade, Canada has three of the most business-friendly incentive programs available anywhere. They are:

- the Duty Deferral Program (DDP);
- the Export Distribution Centre Program (EDCP); and
- the Exporters of Processing Services (EOPS) Program.

Taken together, the duty and tax benefits of these programs are broadly comparable to the advantages provided by foreign trade zones (FTZs) in other countries. Unlike traditional FTZs, which tie businesses to a location that may not be ideal for them, Canada's FTZ-equivalent programs offer your company the vitally important advantage of geographic flexibility.



Because you can use them across Canada, these three programs give you the benefits of a traditional FTZ wherever business conditions are best for your company. You are not restricted to a handful of locations that may be distant from your best markets or may suffer from inadequate infrastructure and poor logistics. In effect, the DDP, the EDCP and the EOPS programs make it possible to create an FTZ environment exactly where your business needs it.

### THE DUTY DEFERRAL PROGRAM (DDP)

#### What is the DDP and how can it help my business?

The DDP is administered by the Canada Border Services Agency (CBSA). If you qualify for the program, the CBSA can postpone or refund duties and taxes you would otherwise have to pay on goods you import.

By eliminating or deferring these costs, the DDP can increase your cash flow, free up your working capital and allow you to price your exports more competitively. Taking advantage of the DDP can also help you develop your business by making it easier to attract investment and to partner with other companies.





## How does the DDP work?

The DDP has three components that you can use individually or in combination, depending on the unique needs of your company. These components are the customs bonded warehouse, duties relief and drawback of duties on exported goods.

### **Customs Bonded Warehouse**

A customs bonded warehouse is a storage facility that your company operates under the authority of the CBSA. However, it does not have to be a conventional warehouse — it could be part of your office building or even a hotel conference room, depending on your immediate requirements. This gives you enormous flexibility in how you store, handle and move your goods, which can translate into a valuable competitive edge.

The following are some of the benefits of using a customs bonded warehouse:

- You do not pay duties and taxes until the goods enter the Canadian marketplace.
- If you export the goods from Canada, you do not pay duties and taxes.
- You can import goods in bulk, store them in your warehouse and remove them as you need them. This reduces your up-front costs because you pay duties and taxes only on the goods that enter the Canadian market.
- You can store the goods in your warehouse for up to four years, during which time you can handle them in a variety of ways, providing that you do not substantially alter the goods.

▶ TO PARTICIPATE IN THIS PROGRAM, APPLICANTS MUST POST SECURITY ACCEPTABLE TO THE CBSA AND PAY A MODEST ANNUAL LICENSING FEE. THE CBSA MAY AUDIT YOU OCCASIONALLY TO ENSURE THAT YOU ARE COMPLYING WITH THE PROGRAM REQUIREMENTS.



## FUNCTIONS THAT MAY BE PERFORMED IN A CUSTOMS BONDED WAREHOUSE

Allowable functions that can be performed in a customs bonded warehouse include:

- disassembling or reassembling the goods, if they have been assembled or disassembled for packing, handling or transport;
- displaying, inspecting, labelling, packing, storing or testing the goods;
- removing a small sample of the goods to solicit orders for goods or services; and
- cleaning, diluting, maintaining, servicing, preserving, separating defective goods, sorting or grading, trimming, filing, slitting, cutting, and complying with any applicable law of Canada or a province, as long as the characteristics of the goods are not materially altered.

### Duties Relief Program (DRP)

With duties relief, you may not have to pay duties on imports that you store, process or use to manufacture other products, provided you later export the goods or products.

Duties relief has other benefits, such as the following:

- You have up to four years from the date of importation to export your goods before you have to pay duties.
- You can sell or transfer the goods to other authorized duties relief participants without having to pay duties. In this case, the receiving company assumes liability for any duties.
- You can substitute Canadian-made parts for imported ones to help you meet changing market conditions.
- You do not need to post security: for example, no bonds or licensing fees are required.

Note that the CBSA may occasionally check to make sure you are complying with these requirements.

### Drawback (refunding of duties)

Did you already pay duties on goods that you subsequently exported? You may still be able to recover those duties under the duty drawback option. It allows you to apply for a refund of duties you paid on imported goods that you later export. You have to file the claim within four years of the date of importation.

You can apply for a drawback if you export the goods in the same condition in which they were imported, or if you use them in the manufacture of other goods that are exported.





You can also receive a drawback of duties paid on imported goods that become obsolete or surplus to your needs, or that have been manufactured into a product that is obsolete or surplus. To be eligible, the goods have to be undamaged, unused, and must be destroyed under the supervision of the CBSA. In this case, you can file a drawback claim up to five years after you imported the goods, but not until the goods have actually been destroyed.

### Who can participate in the DDP?

*You may qualify for the DDP if you:*

- store goods before releasing them for sale into the Canadian marketplace; or
- import goods and later export them without substantially altering them; or
- use imported goods in the production of other goods for export.

## EFFECTS OF THE NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

Note that NAFTA can limit the ability to benefit from the duties relief and drawback programs with respect to non-originating goods — that is, goods that do not originate in the U.S., Canada or Mexico but are used as materials for manufacturing Canadian products that are subsequently exported to a NAFTA partner. Further information regarding NAFTA's effects on the DDP may be found at [www.cbsa-asfc.gc.ca/publications/dm-md/d7/d7-4-3-eng.pdf](http://www.cbsa-asfc.gc.ca/publications/dm-md/d7/d7-4-3-eng.pdf).

## THE EXPORT DISTRIBUTION CENTRE PROGRAM (EDCP)

### What is the EDCP and how can it help my business?

The EDCP is administered by the Canada Revenue Agency (CRA) and is intended to benefit businesses that import goods and/or acquire goods in Canada, process them to add limited value and then export them.

If you qualify for the program, you don't have to pay GST/HST on most of your imported goods, or on domestic purchases of goods worth \$1,000 or more. This improves your cash flow because you don't need to pay the taxes up front, claim an input tax credit on your GST/HST return and then wait for your net tax refund to arrive.

### How does the EDCP work?

EDCP participants typically import goods from abroad and/or acquire them in Canada, process them to add limited value and then export the value-added goods to customers outside Canada. The "limited value" criterion is a key factor here, since the EDCP is not intended to benefit companies that manufacture or produce new products that

they then export. The program is therefore of particular benefit to businesses that are involved in the processing of goods such as distributing, disassembling, reassembling, displaying, inspecting, labelling, packing, storing, testing, cleaning, diluting, maintaining and servicing, preserving, sorting, grading, trimming, filing, slitting or cutting. The meaning of "limited value" is explained in the next section, "Who can participate in the EDCP?"

An example may make this clearer. Suppose you are a supplier of clothing, and a U.S. customer contracts with you to provide 5,000 shirts to its specifications. You import the unprocessed shirts from Indonesia, sew on the customer's labels, package them, add price tickets and ship them to the U.S.

In this situation, if you are an EDCP participant, and if the value you add to the goods falls within the "limited value" range specified by the EDCP, with the use of your EDCP authorization number, you don't need to pay GST/HST on the imported shirts, or on most of the goods you import or purchase to fill the order, provided these purchases are worth \$1,000 or more.



## Who can participate in the EDCP?

You may be eligible for the EDCP if the following applies to you:

- At least 90 per cent of your operations for the fiscal year are commercial activities.
- At least 90 per cent of your business revenues for the fiscal year come from export sales.
- You add only limited value to your customers' goods that you import or take possession of in Canada during the fiscal year, as follows:
  - the value you add through the provision of non-basic services is 10 per cent or less; or
  - the value you add, calculated as the total of non-basic services provided *plus* basic services provided, is 20 per cent or less.
- You do not substantially alter goods, for example by producing or manufacturing goods.

As indicated above, "basic services" are distinguished from "non-basic services" when the value added is assessed. "Basic service" means a type of service that can be performed in a customs bonded warehouse, as described earlier in the discussion of the DDP (see the sidebar titled "Functions that may be performed in a customs bonded warehouse"). Generally speaking, if a service does not fulfil one of these functions, it is a non-basic service.

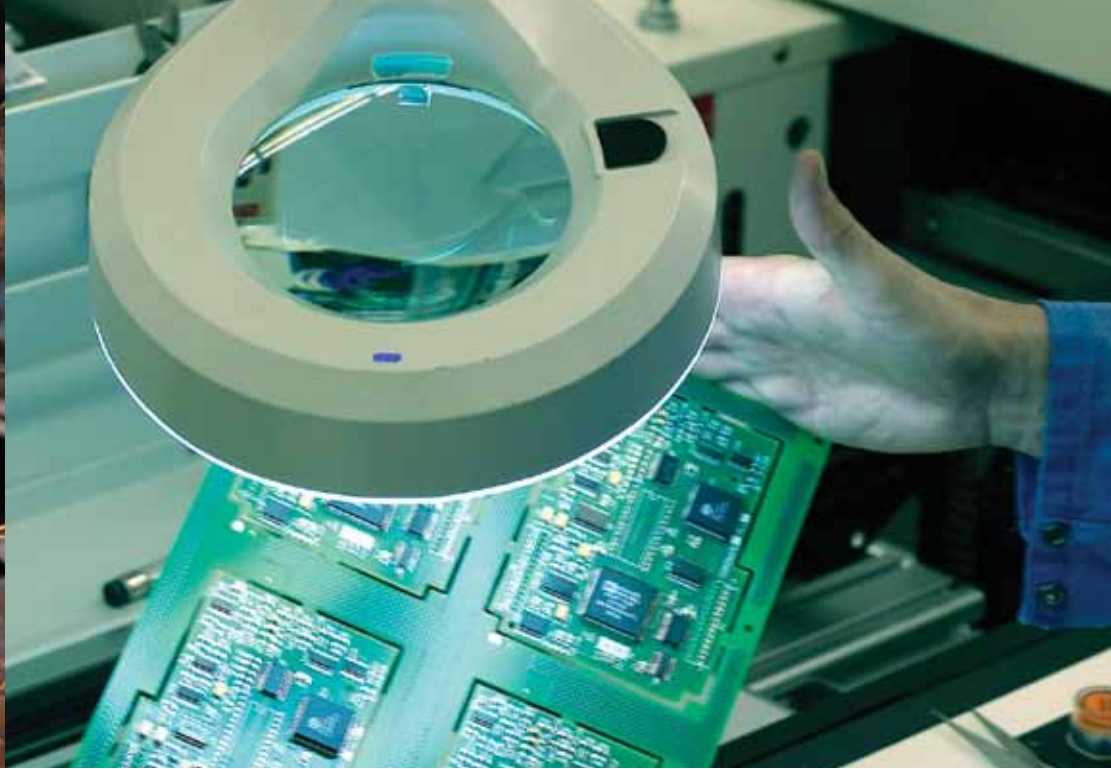
EDCP participants must ensure that they meet EDCP eligibility criteria throughout the course of their authorization. For details of these criteria and for extensive additional information about the EDCP, refer to *GST/HST Technical Information Bulletin B-088*, available at [www.cra-arc.gc.ca/E/pub/gm/b-088/README.html](http://www.cra-arc.gc.ca/E/pub/gm/b-088/README.html).

## THE EXPORTERS OF PROCESSING SERVICES (EOPS) PROGRAM

### What is the EOPS Program and how can it help your business?

The EOPS Program is administered by the CRA. It relieves participants of the obligation to pay GST/HST on imports of goods belonging to non-residents, provided that these goods are imported for processing, distribution or storage and are subsequently exported. Participating in the program thus helps your cash flow and reduces your operating expenses.





Unlike the EDCP, however, the EOPS Program imposes no minimum level of export sales that you must meet in order to maintain your eligibility. It also sets no limits on the value you can add to a non-resident's goods, which means you can use those goods to manufacture or produce other products for foreign customers, all without endangering your EOPS eligibility.

### How does the EOPS Program work?

As an EOPS Program participant, you use your EOPS authorization number to be relieved of the obligation to pay GST/HST on the goods of non-residents that you import for processing, distribution or storage and subsequent export.

For example, suppose your business provides assembly services to companies that sell mining equipment. You contract with a British company to build 200 heavy-duty pumps for export out of components purchased in the U.S. by your British customer and imported by you into Canada. Because you're an EOPS Program participant, by using your EOPS authorization number you pay no GST/HST on the imported components.

### Who can participate in the EOPS Program?

To participate in the EOPS Program, you have to meet the following eligibility requirements.

- You cannot own the imported goods or resultant processed goods at any time while they are in Canada. They must always be owned by a non-resident and the customer cannot be resident in Canada.
- You must import the goods for the sole purpose of supplying storage, distribution, processing, manufacturing or production services to your foreign customer.
- You cannot be closely related (generally, where there is a degree of common ownership of at least 90 per cent) to your foreign customer or a foreign owner of the goods.
- You cannot transfer physical possession of the goods to another business in Canada, except for storage or transportation.
- You must export the goods within four years of accounting for them.
- The goods cannot be consumed or used in Canada.
- You must provide any financial security that is required to import the goods.

### How do you apply for the DDP?

In general, you can apply for any or all of the DDP components if you are an importer, exporter, processor, owner, producer or a warehouse operator. All you need to do is submit the appropriate documentation to your local CBSA office, which reviews your application to determine eligibility.

#### Obtaining application forms

You can download the application forms for each DDP component from the CBSA forms Web page at [www.cbsa-asfc.gc.ca/publications/forms-formulaires](http://www.cbsa-asfc.gc.ca/publications/forms-formulaires) (direct links to these forms are also given below).

#### Applying for a Customs Bonded Warehouse licence

To apply for a customs bonded warehouse licence:

1. Complete Form E401, *Application for Licence to Operate a Customs Bonded Warehouse*, available at [www.cbsa-asfc.gc.ca/publications/forms-formulaires/e401.pdf](http://www.cbsa-asfc.gc.ca/publications/forms-formulaires/e401.pdf).
2. Submit the completed application, together with your supporting documentation, to the CBSA office in the region where your warehouse is located.
3. If the application is approved, the CBSA will issue a customs bonded warehouse licence number to you.
4. An annual licence fee is applicable and you must also post security based on the type of goods involved.

#### Applying for Duties Relief

To apply for duties relief:

1. Complete Form K90, *Duties Relief Application*, available at [www.cbsa-asfc.gc.ca/publications/forms-formulaires/k90.pdf](http://www.cbsa-asfc.gc.ca/publications/forms-formulaires/k90.pdf).
2. Submit the completed application to your local CBSA office.
3. If the application is approved, the CBSA will issue you a certificate number that identifies you as a duties relief participant.

### Applying for Drawback

To apply for drawback:

1. Complete Form K32, *Drawback Claim*, available at [www.cbsa-asfc.gc.ca/publications/forms-formulaires/k32.pdf](http://www.cbsa-asfc.gc.ca/publications/forms-formulaires/k32.pdf).
2. Attach documentation to show that the goods qualify for drawback and send the package to your local CBSA office. You will usually receive a partial or full refund within 90 days, pending final review of the claim.

To claim a drawback for obsolete or surplus imports being destroyed:

1. Complete Form K32, as above.
2. Attach a certified copy of Form E15, *Identification of Goods Exported or Destroyed*, to identify the goods in question. The form is available at [www.cbsa.gc.ca/publications/forms-formulaires/e15.pdf](http://www.cbsa.gc.ca/publications/forms-formulaires/e15.pdf).
3. Send all the documentation to your local CBSA office to request a refund.

### How do you apply for the EDCP?

To apply for the EDCP:

1. Obtain Form GST528, *Authorization to use an export distribution centre certificate*, which you can download from the CRA website at [www.cra-arc.gc.ca/E/pbg/tf/gst528/README.html](http://www.cra-arc.gc.ca/E/pbg/tf/gst528/README.html).
2. Complete the application and send it to your local CRA tax services office. You'll find a directory of these offices at [www.cra-arc.gc.ca/cntct/tso-bsf-eng.html](http://www.cra-arc.gc.ca/cntct/tso-bsf-eng.html).
3. The CRA will review your application. Assuming the CRA authorizes you to use the EDCP, it will notify you in writing of the effective date and the expiry date of your authorization and will provide you with an EDCP authorization number that you can use to purchase or import goods tax-free.

Note that you have to renew your EDCP authorization every three years. You do this by using Form GST528 again and repeating the application procedure.

When you apply for the EDCP, you can also apply for duty relief under the DDP. In this case, use the following procedure:

1. Follow the steps above to apply for the EDCP.
2. Complete CBSA Form K90, *Duties Relief Application*, available on the CBSA website at <http://www.cbsa-asfc.gc.ca/publications/forms-formulaires/k90.pdf>.
3. Send the completed K90 to your local CBSA office, *not* to the CRA. You'll find a directory of CBSA offices at <http://www.cbsa-asfc.gc.ca/contact/>.
4. The CBSA will review the K90 and will notify you in writing of the authorization.

## How do you apply for the EOPS Program?

To apply for the EOPS Program:

1. Prepare an application letter requesting authorization to use the EOPS Program.
2. Send your application letter to your local CRA tax services office. There's a directory of these offices at [www.cra-arc.gc.ca/cntct/tso-bsf-eng.html](http://www.cra-arc.gc.ca/cntct/tso-bsf-eng.html).
3. The CRA will review your application. If it authorizes you to use the EOPS Program, it will

notify you in writing and will issue you an EOPS authorization number that you must disclose when accounting for the non-taxable importation of goods under the program.

When you apply for the EOPS Program, you can also apply for duty relief under the DDP. In this case, use the following procedure:

1. Prepare an application letter for the EOPS Program, as in step 1 above.
2. Complete CBSA Form K90, *Duties Relief Application*, available on the CBSA website at <http://www.cbsa-asfc.gc.ca/publications/forms-formulaires/k90.pdf>.
3. Send the completed K90 and your application letter to your local CBSA office, *not* to the CRA. You'll find a directory of CBSA offices at <http://www.cbsa-asfc.gc.ca/contact/>.
4. The CBSA will review the K90. It will also forward your application letter to your local CRA tax services office for review.
5. Assuming you are authorized to use duty relief and the EOPS Program, the CBSA and the CRA will notify you in writing and issue the appropriate authorizations.

## KEY CONTACTS

### Canada Border Services Agency

[www.cbsa-asfc.gc.ca/import/DDR-red/](http://www.cbsa-asfc.gc.ca/import/DDR-red/)

For further information on the Duty Deferral Program, please contact the CBSA Business Information System (BIS) at 1-800-461-9999 (for service in English) and 1-800-959-2036 (for service in French).

#### Calls outside Canada

*Service in English:*

204-983-3500 / 506-636-5064

*Service in French:*

204-983-3700 / 506-636-5067

### Border Information Service

[www.cbsa-asfc.gc.ca/contact/](http://www.cbsa-asfc.gc.ca/contact/)

### Canada Revenue Agency

[www.cra-arc.gc.ca](http://www.cra-arc.gc.ca)

For further information on the Export Distribution Centre Program and the Exporters of Processing Services Program, please contact the CRA at 613-952-8810. Facsimile: 613-990-1233.

Address: Border Issues Unit

General Operations and Border Issues Division

Excise and GST/HST Rulings Directorate

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