Canada Border Services Agency | Agence des services frontaliers du Canada

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Memorandum D13-4-10

Ottawa, February 6, 2018

Price Reductions

In Brief

This memorandum, formerly entitled "Discounts", has been reissued to explain the Canada Border Services Agency's revised policy on the treatment of reductions to the price paid or payable, which result from agreements in writing that are in effect at the time goods are imported to Canada.

This memorandum outlines and explains the treatment of price reductions in determining the value for duty under the transaction value method, in accordance with section 48 of the Customs Act.

Legislation

Sections 45 and 48 of the Customs Act

Guidelines and General Information

1. The price paid or payable, in accordance with subsection 45(1) of the Customs Act (the Act), is the total of all payments, whether direct or indirect, made or to be made in respect of the goods by the purchaser, to or for the benefit of the vendor.

2. The term "price reduction" means a decrease in the price paid or payable for goods granted by the vendor.

3. For the purposes of this memorandum, the term "discount" refers to an arrangement whereby the vendor, in return for the purchaser's undertaking of certain obligations or accepting or meeting certain conditions, reduces the amount of the price paid or payable for the imported goods. For example, the vendor may grant a discount for prompt payment (cash discount), or because the purchaser operates at a certain level of trade (trade level discount), or because the purchaser has agreed to purchase a specified quantity of the goods in the sale giving rise to their importation (quantity discount).

Treatment of Price Reductions

4. If a price reduction is in effect at the time of importation, the amount of that price reduction must be considered when calculating the price paid or payable for the imported goods.

5. As an example of a price reduction granted prior to importation, a firm in Canada purchases a machine from a foreign manufacturer. The list price of the machine is $100. However, the manufacturer grants a 10% discount because the purchaser operates at the retail level of trade, resulting in a price paid or payable of $90. Since the parties agreed on the discount prior to importation, the price paid or payable is $90 and is an acceptable basis for value for duty, subject to the other requirements of the transaction value method being met (section 48 of the Act).

6. The Canada Border Services Agency (CBSA) will only accept a reduction in the price paid or payable that occurs after importation if:

(a) the purchaser takes advantage of cash discount terms offered by the vendor prior to importation; or

(b) an agreement in writing to later reduce the price paid or payable was in effect at the time of importation, and the reduction results from the agreement.

7. Prior to importation, a vendor may offer to a purchaser cash discount terms that provide for a reduced payment to be made within a specific time period that concludes after the date the goods are imported. When such a cash discount arrangement exists, the CBSA will allow consideration of the discount when ascertaining the price paid or payable, regardless of when the purchaser makes the reduced payment.

8. For example, a firm in Canada purchases a machine from a foreign manufacturer, the price of which is $10,000. However, the manufacturer grants a discount of 5% if payment is made within 10 days after the date of sale. At the time of importation, the cash discount is still available but not yet taken. If the purchaser takes advantage of the manufacturer's discount terms, the CBSA will accept the price reduced by the amount of the discount, resulting in a price of $9,500 upon which a calculation of value for duty under the transaction value method can be based.

9. In accordance with paragraph 48(5)(c) of the Act, any rebate or decrease in the price paid or payable effected after importation of goods must be disregarded. Consequently, this applies when a purchaser and a vendor enter into an agreement to reduce the price paid or payable of goods after those goods have been imported to Canada.

10. For example, a purchaser imports goods into Canada for resale. After importation, the purchaser requests from the vendor a reduction in the price of the goods to improve its price competitiveness in the Canadian market. If the vendor agrees to reduce the price, the purchaser cannot adjust the price paid or payable for the goods by the amount of the reduction as the decrease was effected after importation.

11. Paragraph 48(5)(c) of the Act does not apply to a reduction to the price paid or payable that results from an agreement that is in writing and is in effect at the time the goods are imported to Canada.

Deferred Discounts

12. A deferred discount is a retroactive discount given by the vendor when the purchaser satisfies certain obligations. Such a discount negotiated or offered before importation is considered to be in effect at the time of importation if it ensues from an agreement in writing that existed at the time the goods were imported.

13. For example, a purchaser makes a sale agreement with a foreign vendor to acquire 1,000 bicycles at a price of $100/unit. The agreement struck before the goods are imported includes a vendor's incentive to purchase more units, stating that the vendor will grant a 10% discount on the unit price of all purchases if the purchaser orders additional units within a specified time period. Therefore, if the purchaser orders additional units within the specified time frame, and the vendor grants the retroactive discount on the first 1,000 units purchased, the price paid or payable may be reduced by $10 per unit. The discount would be applied to the first and second order, and the price paid or payable for the additional bicycles would be reduced by $10 per unit.

Note: Discounts are treated as part of the price paid or payable rather than as adjustments identified in subsection 48(5) of the Act. For coding purposes, when the obligation or condition necessary for a discount is fulfilled or met prior to, or at time of importation, and no adjustment identified in subsection 48(5) of the Act applies, the value for duty code to be declared is "13" if the purchaser and vendor are unrelated. If they are related parties, the value for duty code to be declared is "23".

Credits in Respect of Earlier Transactions

14. After the price paid or payable for the imported goods has been identified, a vendor may agree to provide a purchaser with a credit or other compensation in certain circumstances. The credit represents an amount already paid to the vendor in an earlier transaction, and is not a factor in the calculation of the transaction value of the goods being imported. The credit is an indirect payment which does not reduce the price paid or payable of the goods. The price paid or payable consists of all direct and indirect payments to or for the benefit of the vendor.

15. For example, a purchaser buys a computer at a price of $1,000 in a sale for export to Canada. The vendor applies a credit of $300 to the sale price for a previous sale of a defective television. The purchaser pays the $700 balance to the vendor. Although the $300 credit reduces the amount of money paid to the vendor for the computer, the price paid or payable on which the transaction value is based is still $1,000 because the vendor credit in respect of the earlier transaction does not reduce the price paid of the goods to which it is applied.

Trade-ins

16. A trade-in occurs when goods are accepted as full or partial payment for a purchase. This notional value is attributed to the trade-in of goods by the vendor and may vary among different vendors. A trade-in precludes the applicability of the transaction value method. In accordance with paragraph 48(1)(b) of the Act, a trade-in represents a condition or consideration in respect of which a value cannot be determined. In addition, subsection 48(5) of the Act does not provide for a deduction from the price paid or payable for an amount of a trade-in allowance.

17. Since the transaction value method cannot be used, the value for duty must be determined under the subsequent methods of valuation provided for in sections 49 to 53 of the Act. Usually, the value for duty is calculated under section 53, the residual method of valuation, and includes the purchaser's payment and the amount of the trade-in allowance.

Additional Information

18. For information on agreements between related parties to later reduce the price paid or payable which are in effect at time of importation, refer to Memorandum D13-4-5, *Transaction Value Method for Related Persons*.

19. For more information, within Canada call the Border Information Service at **1-800-461-9999**. From outside Canada call 204-983-3500 or 506-636-5064. Long distance charges will apply. Agents are available Monday to Friday (08:00 – 16:00 local time/except holidays). TTY is also available within Canada: **1-866-335-3237**.

References	
Issuing Office	Trade and Anti-dumping Programs Directorate
Headquarters File	
Legislative References	Customs Act
Other References	D13-4-5
Superseded Memorandum D	D13-4-10, October 4, 2013