



# Memorandum D13-10-2

Ottawa, July 19, 2021

## Used Automobiles, Motor Vehicles, Boats, and Other Vessels

### In Brief

This memorandum has been amended to update the policy concerning the sources that may be relied on in determining value for duty for used vehicles and boats under the residual method.

This memorandum outlines and explains the manner in which the value for duty of used automobiles, motor vehicles, boats and other vessels is to be determined.

### Legislation

[Customs Act](#)

[Customs Tariff](#)

## Guidelines and General Information

### **Customs Tariff – Used Automobiles and Motor Vehicles**

1. The *Customs Tariff*, its schedule and certain tariff relief measures, deal specifically with new and used automobiles and motor vehicles (herein referred to as “vehicles”) in terms of their eligibility for importation and their tariff treatment when imported by settlers or returning residents. The Canada Border Services Agency (CBSA) maintains several publications that provide guidance on importations of such vehicles:

- (a) Memorandum D2-2-1, Settlers’ Effects - Tariff Item No. 9807.00.00, addresses the subject of vehicles imported by settlers;
- (b) Memorandum D2-3-2, Former Residents of Canada – Tariff Item No. 9805.00.00, deals with importations by returning residents;
- (c) Memorandum D9-1-11, Importation of Used or Second-hand Motor Vehicles, provides information on which vehicles are eligible for importation;
- (d) Memorandum D19-12-1, Importation of Vehicles, explains conditions under which vehicles can be imported;

2. A value for duty must be established for all imported goods without regard to either the *Customs Tariff* or tariff treatment relief provisions accorded to particular products or individuals. In other words, the tariff classification or tariff relief matter has no bearing on the manner of determining the value for duty.

3. As explained in Memorandum D13-3-1, Methods of Determining Value for Duty, when determining the value for duty, the six methods of valuation must be applied in sequential order. The [Customs Valuation Handbook](#) may also be consulted for general information on the application of the various customs valuation methods. The following paragraphs provide information to assist in the application of these methods for purposes of determining the value for duty of used vehicles, boats and other vessels.

### **Transaction Value Method**

4. In all cases where a new or used vehicle or boat is “sold for export to Canada”, and the sale meets all of the requirements set out in section 48 of the *Customs Act* (the Act), the price paid or payable must be used as the basis for determining the value for duty. Refer to Memorandum D13-4-1, Transaction Value Method of Valuation, for further information.

5. Where a vehicle or boat, new or used, is imported within 30 days of the date of delivery to the purchaser, the value for duty will be based on the purchase price as the basis for establishing a transaction value. A sale for export to Canada is considered to have occurred, and any use of the vehicle or boat prior to importation will be regarded as being incidental to delivery of the vehicle or boat to Canada. However, if the purchase of the vehicle or boat includes a reduction in price given by the dealer for a trade-in, the transaction value method cannot be used (refer to the “Trade-Ins” section below).

6. In cases where a used vehicle or boat is sold for export to Canada for a price paid or payable but is repaired, improved, or modified prior to importation, the vehicle provided to the company for repair work or customizing would be considered to be an “assist” under subparagraph 48(5)(a)(iii) of the Act that is provided free of charge to the vendor of the service. In such cases, the value for duty of the imported goods will be determined by adding the cost for the used vehicle to the price paid or payable for the repair, improvement or modification. For example, an importer pays \$1,000 for a used vehicle, buys parts for \$200, and pays \$300 for installation of the parts and other repairs prior to importation. The resulting transaction value will be \$1,500. The importer must provide the CBSA with documentation substantiating all payments made in respect of the vehicle.

7. It should also be noted that the location where the goods are repaired, improved or modified prior to importation will likely qualify as the place of direct shipment to Canada. Therefore, if this location is different than that of where the used vehicle was purchased, then any cost of shipping or transporting the goods to this ‘repair’ location paid separately must be added to the price paid or payable pursuant to subparagraph 48(5)(a)(vi) of the Act. Consequently, if the importer hires a towing company to tow the used vehicle from the used car dealer’s lot to the repair shop at the cost of \$100, this too will need to be added to the price paid or payable. Using the same example as in the previous paragraph, this would therefore result in a transaction value of \$1,600.

8. If any requirements of the transaction value method are not met, for example, where there is no sale or price paid or payable (gift, or no commercial invoice/bill of sale), the transaction value method must be rejected. As a result, the value for duty must be determined under one of the subsequent methods of valuation applied in the sequential order provided for in sections 49 to 53 of the Act.

#### **Transaction Value of Identical or Similar Goods Methods**

9. The application of the transaction value of identical or similar goods methods requires information based on a previous transaction value in which the goods are comparable in physical characteristics (i.e. model, style, mileage, condition, options) and function, and were imported into Canada within +/- 30 days as the good being appraised.

10. In effect, it will be difficult to find sales for export to Canada of used vehicles or boats which qualify as identical or similar goods as specified in section 49 or 50 of the Act (refer to Memorandum D13-5-1, Application of Sections 49 and 50 of the Customs Act).

#### **Deductive Value Method**

11. The deductive value method under section 51 of the Act, bases the value for duty of imported goods on the resale price per unit in Canada of those goods, or identical or similar imported goods. For commercial importations of used vehicles and boats, this method of valuation is the most likely alternate method of appraisal, but can only be used when the goods being appraised are to be resold (refer to Memorandum D13-7-1, Deductive Value Method – Determination of the Price Per Unit and Memorandum D13-7-3, Deductive Value Method – Deductions From the Price Per Unit)

#### **Computed Value Method**

12. The computed value method of section 52 of the Act bases the value for duty on the cost of production of the imported goods. Since a used vehicle or boat is not produced or manufactured as such, this method is not applicable.

## Residual Value Method

13. The value for duty of importations of used vehicles and boats will, where the methods found in sections 48 to 52 of the Act cannot be applied, be determined under the provisions of section 53 of the Act, the residual method. In casual importation scenarios, this is the most likely alternate method of valuation.

14. Under the residual method, the importer may flexibly apply, to the extent necessary, one of the previous five methods in order to arrive at a value for duty that is consistent with the intent of the valuation legislation and regulations. Essentially, the intent is to ensure that the value determined is fair, neutral, objective and reflects commercial reality. The value for duty is to be derived from whichever method of valuation that requires the least amount of adjustment in order to be applied. Within this context, the sequential application of these methods should be maintained (refer to Memorandum D13-9-1, Residual Basis of Appraisal Method).

15. Accordingly, consideration should first be given to flexibly applying the transaction value method. As boats tend to hold their value, compared to vehicles, it may be appropriate to flexibly apply the transaction value method using the purchase price of the new or used boat. The CBSA will normally accept the purchase price of a new or used boat as the value of the boat being imported for up to one year (i.e. the first twelve months) after the date of purchase, unless there is information indicating a significant change in market value. In situations where the flexible transaction value method cannot be applied, consideration then may be given to a flexible application of the transaction value of identical or similar goods. However, as noted above, it may be difficult to find sales for export to Canada of comparable used vehicles or boats.

16. Where a flexible application of the transaction value of identical or similar goods methods cannot be made, a flexible application of the deductive method will be considered. The deductive method may be flexibly applied by referencing neutral sources, for example, published Canadian valuation guides for used vehicles and boats.

## Neutral Sources

17. For vehicles, the *Canadian Automobile Red Book* is the primary reference that should be used to determine the vehicle's retail value. For boats, the primary reference is the *Boat Value Book*. The published retail value in these guides will form the starting point for the determination of the value for duty. The value of any options included in the vehicle or boat that is being valued (e.g. dealership add-ons or accessories), which are not included in the retail value of the vehicle as listed in the guide, must be added. An amount for Canadian duties and taxes, using the duty and tax rates applicable at the time of importation of the goods being appraised, will then be deducted in order to determine the value for duty based on a flexible application of the deductive value method.

For example, a vehicle of European origin, imported from the United States, is listed in the Canadian Automobile Red Book at a value of \$10,000 at the time of importation of the vehicle being valued. The goods and services tax (GST) is 5% and the rate of duty applicable on that date is 6.1% (Most-Favoured-Nation (MFN) rate). The value for duty, disregarding any options or adjustments for condition, would be calculated as follows:

Canadian Automobile Red Book	
Value	\$10,000.00
Duty paid value, before GST ( $10,000 \div 1.05$ )	\$ 9,523.81
Value for duty, before application of MFN rate ( $9,523.81 \div 1.061$ )	\$ 8,976.26

**Note:** The rates of duty and goods and services tax in this example were applicable on the date this memorandum was published. Prospective importers should contact the CBSA to confirm duty and tax rates.

18. A downward adjustment to the published retail value for condition is possible, provided that the importer can demonstrate that the vehicle is in poorer than average condition. In such cases, the importer should ensure that a notation is placed on the customs documentation at the time of importation to the effect that "the vehicle is in poorer than average condition" and a brief description of the deficiencies should be noted. In calculating a downward adjustment, the CBSA will consider any relevant information such as actual or estimated costs from a third party for returning the vehicle to average condition after importation in the calculation of the adjustment. In

the case of estimated costs, the CBSA may require cost estimates from more than one party. To the extent that the cost estimate is reasonable, the amount may be deducted from the book value. It should be noted that only repairs required to put the vehicle in average condition will be considered. No downward adjustment will be made for repairs or improvements over and above this. For example, the repairs that are necessary in order for the vehicle to pass provincial safety inspection standards will be considered as putting the vehicle in average condition.

19. Where the importer is unable to provide a value from a pricing guide published in Canada, the value for duty of the goods being imported into Canada may be determined by:

- (a) consulting a neutral source who operates in Canada, to provide an appraisal of the goods being imported into Canada, or
- (b) in certain circumstances, as outlined below, by applying depreciation to the purchase price.

**Note:** As outlined in D13-9-1, Residual Basis of Appraisal Method, the value for duty cannot be determined on the basis of the price of goods on the domestic market of the country of exportation under the residual method.

20. In the case of large commercial vessels, such as tankers, cargo ships and the like, it is necessary to obtain a current written and signed appraisal, normally from the “Sale and Purchase” department of a ship brokerage firm known in the industry and internationally for valuing such vessels.

21. In the case of vessels other than those mentioned above, and in the absence of a declaration based on independently published values, a current written and signed appraisal by a marine surveyor or appraiser, who is independent of the importer and the seller (refer to Memorandum D13-3-2, Related Persons) would be acceptable as an alternative.

### Depreciation

22. There will be situations where book values do not address particular and unique circumstances. The one most frequently encountered by the CBSA is the situation of Canadian residents who purchase a “new” vehicle for their own use while they are residing outside the country and use it in a normal manner from the time of purchase up to the time of their return to Canada, which is within one year of the date of purchase. The difficulty presented in these circumstances is that sources, such as the Canadian Automobile Red Book, normally do not have values for automobiles in the first year of production since an insufficient number of sales have occurred on which to base any values. Therefore, for new vehicles imported between 30 days and one year after purchase, an alternate procedure is required.

23. For vehicles purchased new and imported after 30 days from the date of delivery to the purchaser but before one year from the time of purchase has elapsed, a depreciation allowance has been devised. No depreciation allowance is deductible from vehicles which were purchased “used” by the importer, as the CBSA will use normal market value information from the *Canadian Automobile Red Book*.

24. The CBSA has established that on average, a new vehicle depreciates less than 20% in its first year. Accordingly, depreciation will be allowed from the original purchase price at the rate of 1/335 of 20% (or 0.0597%) for each day beyond 30 days from the date of delivery that the vehicle is outside Canada, up to a maximum of 20%. For example, a Canadian residing abroad purchases a new vehicle on January 1, 2021. The purchase price of the vehicle is \$30,000. On returning to Canada on June 20 by air, the returning Canadian resident notifies the CBSA that their vehicle will be arriving in Canada on July 15, 2021. Using the depreciation method described in this paragraph, the following calculations are made to arrive at the value for duty:

Number of “allowable” days of depreciation, January 1 to July 15: 195 less 30 = 165	
Price of new vehicle	\$30,000
Depreciation allowance: $\$30,000 \times 165 \times 0.0597\% =$	- \$2,955
Value for duty	\$27,045

25. There may be situations in which a Canadian resident purchases a new automobile outside Canada for their own use and does not import it into Canada within one year. Normally, upon importation, the Canadian resident would use the *Canadian Automobile Red Book*, to value the vehicle since the time period allowed for the depreciation allowance (one year) has passed. As stated earlier, in certain cases, this may lead to an anomalous situation where the Canadian resident imports a vehicle shortly after one year and, by using the price in the *Canadian Automobile Red Book*, arrives at a value which is higher than what would have been obtained using the purchase price less 20% depreciation. This may be attributable to a lack of sales data for that vehicle after only one year on the market. In order to correct this anomaly, the CBSA will accept the purchase price less 20% for that period of time when it is lower than the value from the *Canadian Automobile Red Book* as the value for duty.

### Trade-ins

26. In determining the value for duty of new or used vehicles or boats, an importer may claim that a “trade-in” or exchange has lowered the price of the importer’s cash outlay for the vehicle or boat. In reality, a “trade-in” or exchange represents a condition or consideration in respect of which a value of the goods cannot be determined (i.e. paragraph 48(1)(b) of the Act). A value attributed to the “trade-in” or exchange is simply a notional value ascribed to it by the vendor and may be more or less than the true value of the vehicle. As an example, a car dealership may “offer” \$1,000 for any used car in any condition. In actual fact, the “offer” may be an enticement to attract potential car buyers and the vendor is merely disposing of all trade-ins as scrap. Since a value cannot be determined for “trade- ins” or exchanges, the transaction value cannot be used, and another valuation method has to be applied. Most often a flexible application of the transaction value method pursuant to the residual method under section 53 of the Act will be the most common way of establishing the value for duty in such cases and the gross purchase price of the vehicle will thereby be used.

For example:	
Sale price of vehicle or boat (as obtained from the dealer’s invoice)	\$10,000
Trade-in allowance	-\$3,000
Total cash paid	\$7,000

27. Under subsection 45(1) of the Act, the price paid or payable is defined as “... the aggregate of all payments made or to be made, ..., in respect of the goods...”. In the example above, the importer has made a monetary payment of \$7,000 and a non-monetary payment of a trade-in (for which an allowance of \$3,000 was attributed). By flexibly applying the price paid or payable definition of the transaction value method and taking the value of \$3,000 attributed to the trade-in as part of the payment under the residual method, the total (selling) price of \$10,000 is determined to be the value for duty for the vehicle or boat.

28. In flexibly applying the transaction value method in such manner, the CBSA may give consideration to whether the selling price of the vehicle is reasonable. In this regard, the CBSA may consult neutral sources.

### Additional Information

29. In cases where a sale for export has occurred, or the sale price less an amount for depreciation is used as the basis of determining the value for duty, the CBSA will require documentation substantiating the purchase price. Regardless of whether the vehicle or boat has been purchased from a commercial source or from a private individual, the CBSA will require, at a minimum, either a commercial invoice or a bill of sale. The CBSA may also request additional documentation to substantiate the bill of sale or invoice, such as proof of payment, or cancelled cheque.

### Additional Information

30. For more information, call the [CBSA Border Information Service \(BIS\)](#):

Calls within Canada & the United States (toll free): **1-800-461-9999**

Calls outside Canada & the United States (long distance charges apply):

1-204-983-3500 or 1-506-636-5064

TTY: **1-866-335-3237**

Email: [contact@cbsa-asfc.gc.ca](mailto:contact@cbsa-asfc.gc.ca)

[Contact Us](#) at the CBSA website may also be accessed for information.

<b>References</b>	
<b>Issuing Office</b>	Trade and Anti-dumping Programs Directorate
<b>Headquarters File</b>	
<b>Legislative References</b>	<a href="#"><u>Customs Act</u></a> <a href="#"><u>Customs Tariff</u></a>
<b>Other References</b>	<a href="#"><u>D2-2-1</u></a> , <a href="#"><u>D2-3-2</u></a> , <a href="#"><u>D9-1-11</u></a> , , <a href="#"><u>D13-3-1</u></a> , <a href="#"><u>D13-3-2</u></a> , <a href="#"><u>D13-4-1</u></a> , <a href="#"><u>D13-5-1</u></a> , <a href="#"><u>D13-7-1</u></a> , <a href="#"><u>D13-7-3</u></a> , <a href="#"><u>D13-9-1</u></a> , <a href="#"><u>D19-12-1</u></a> <a href="#"><u>Customs Valuation Handbook</u></a>
<b>Superseded Memorandum D</b>	D13-10-2 dated April 6, 2016