



Memorandum D4-3-5 : Duty Free Shop – Inventory Control and Sales Requirements

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Plain language summary

Target audience: Licensed operators of duty free shops

Key content: Outlines the responsibilities of licensees operating a duty free shop in Canada

Keywords: inventory control, sales requirements, arrival notification, receipt of goods, transferring goods, shortages, disposal of goods, liability for duties and taxes

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Updates made to this D-memo

This memorandum has been revised to:

- Detail the conditions for pre-order websites;
- Remove reference to the cancelled Form, B117 Duty Free Shop (DFS) Summary of Monthly Sales; and
- Incorporate changes due to the implementation of CBSA Assessment and Revenue Management (CARM) system.
- Add vaping products to the DFS commodity list.

Definitions

Domestic goods

Domestic origin goods are goods wholly obtained or produced in Canada (e.g., mineral goods extracted in Canada, goods harvested in Canada). More information on "Made in Canada" guidelines can be found on the [Competition Bureau's Web site](#).

Imported goods, duty and tax paid

Goods manufactured abroad and imported by a Canadian company on which the duties and taxes have been paid.

Imported goods, duty and tax not paid

Goods manufactured abroad and obtained from a Canadian company or a foreign supplier on which the duties and taxes were not paid; and,

Goods that were subject to a drawback claim.

Guidelines

1. Applicants must submit a description of the inventory control system to be used in the DFS when applying for a licence. More information on the application process can be found in [Memorandum D4-3-2, Duty Free Shop – Licensing](#).
2. Reporting and control of inventory, including the sale or disposal of goods, must be completed by licensees to the satisfaction of the Canada Border Services Agency (CBSA).

Composition of Inventory: Domestic and Imported Goods

3. The DFS program has approved the following commodity groups for DFS inventory. Any attempt to add a class of goods to inventory, that is not pre-approved by the program, may result in a licence amendment restricting the classes of goods that may be received into that shop.
4. Commodity list (domestic and imported goods)
 - (a) Accessories (purses, wallets, sunglasses, belts, lighters)
 - (b) Alcohol (liquor, liqueurs, wine, coolers)
 - (c) Beer
 - (d) Clothing (including hats, furs, leathers)
 - (e) Crafts, arts
 - (f) Electronics, cameras, binoculars, telescopes, TVs
 - (g) Food
 - (h) Glassware, crystal, china, figurines, porcelain
 - (i) Jewellery, watches, clocks
 - (j) Office and travel supplies (suitcases, calculators, key holders, all types of bags, pens, luggage)
 - (k) Perfumes, cosmetics, skincare products
 - (l) Souvenirs (excluding clothing)
 - (m) Tobacco products including cigars, and pipe tobacco
 - (n) Vaping products
 - (o) Other (limited to low value goods not listed above)
5. Controlled or prohibited goods under the laws of the country of destination cannot to be sold unless specific exemptions exist under those laws.

6. DFS licensees will not stock or sell any specimen of endangered wild flora or fauna. Refer to [Memorandum D19-7-1, Interpretation of the Wild Animal and Plant Protection and Regulation of International and Interprovincial Trade Act \(WAPPRITA\) and the Convention on International Trade in Endangered Species of Wild Fauna and Flora \(CITES\)](#), for listings of goods subject to export and import control and any conditions under which exceptions would be permitted.
7. Licensees must stock the DFS with a variety of merchandise that gives travellers a choice of brands at different price points wherever possible.
8. DFS licensees must endeavor to promote Canadian-made goods by sourcing domestic origin goods (exclusive of tobacco).

Inventory Control System

9. The operating and administrative procedures in use at a DFS should reflect normal retail business practices with appropriate emphasis given to ensuring that the physical security of the inventory is not compromised.
10. Accurate accounting and inventory control systems are to be maintained by the licensee and all related documentation is to be retained for a period of six years after the sale or disposal of the goods as specified in the [Imported Goods Records Regulations](#).
11. Upon request, the licensee shall make the records available within the time specified by the officer, and answer any questions asked by an officer in respect of the records.
12. Licensees of a DFS are liable for applicable taxes on domestic goods and applicable duties and taxes on imported goods that are received in the DFS unless it can be proven that the goods have been sold for export, are still in the shop, have been destroyed or have been lawfully removed. Refer to the [Customs Act](#) section 28 (1).
13. If there are other commercial activities operating within the duty free shop, such as a snack bar or coffee shop, the licensee must maintain separate accounting systems and records for each operation.

Arrival Notification

14. Paragraph 16(1)(a) of the [Duty Free Shop Regulations](#), requires DFS operators to acknowledge the receipt of goods by endorsing the bill of lading, waybill or other similar document provided by the carrier or by endorsing Form [B116, Canada Border Services Agency Duty Free Shop Accounting Document](#).

15. DFS licensees may use email or other approved means to notify the local CBSA office of the arrival of goods to allow for a better use of the holding area.

16. The subject line must include "Arrival Notification" followed by an alpha-numeric indicator, using the format below:

(a) local CBSA port code (e.g., 8211)

(b) current fiscal year (e.g., 2024)

(c) a combination of the following based on the contents of goods arrived:

(i) imported goods, taxes and duties paid (IP)

(ii) imported goods, taxes and duties not paid (IF)

(iii) domestic goods (D)

(d) sequential running number

For example "Arrival Notification 8211-2023-IP-001."

17. The CBSA will respond to electronic arrival notifications within one and a half hours and will advise whether the goods are released or must be held in the holding area. The CBSA will respond the following business day to arrival notices received less than two hours before the local office closes. If the CBSA does not respond within these timeframes, the goods may be placed into the DFS warehouse inventory as temporarily released goods.

Submission of Form B116

18. Form B116 is used to report goods moving in and out of inventory at a DFS. Submission of the Form B116 may also serve as the arrival notification.

19. Form B116 may be sent electronically to the local CBSA chief of operations and/or designated CBSA officer by e-mail using the same alpha-numeric format in the subject line as outlined in paragraph 16. The licensee will add "IN," "OUT" or "TRANSFER" to the subject line depending on the movement of goods. For example "B116 (IN) 8211-2024-IP-001."

20. When the arrival notification is sent before the submission of Form B116, the same arrival notification number must be included in the email subject line and on the B116. The licensee should cross-reference the corresponding arrival notification numbers and the cargo control number on the B116. The CBSA will verify the B116 against the corresponding arrival notification.

21. If the original email fails to send, the licensee will ensure the local CBSA receives the email of the arrival notification and/or B116 within 5 business days of receiving the shipment. In extenuating circumstances, such as extended system outages or large files that cannot be sent via email, the CBSA will accept paper copies.

22. Only once the CBSA has approved the B116 can the goods be removed from the warehouse and placed for sale in the DFS.

23. All corrections or changes to the electronic declaration or paper copy of Form B116 must be submitted on a Form B116 when noted. The number on the "Arrival Notification" and/or the original Form B116 must be indicated on the amended document as references.

24. Imported goods, duty and tax not paid are to be accounted for in accordance with their country of origin.

Receipt of Goods – Form B116 (IN)

25. Shipments received at a DFS may be accompanied by the following documents:

- (a) shipping, commercial and/or CBSA invoice(s), [CI1, Canada Customs Invoice](#);
- (b) cargo control documents;
- (c) sales slips;
- (d) Commercial Account Document (CAD)*, (ex-warehouse) documents*; and/or,
- (e) Form B116 (transfer) documents.

*Note: Instructions for completing a CAD can be found in [Memorandum D17-1-10, Coding of Customs Accounting Documents](#).

26. The above documentation used to complete Form B116 does not have to be submitted but must be available and provided to the CBSA upon request.

27. Goods being entered into inventory can be identified on Form B116 (IN) by specific product lines or by pre-determined product/commodity groups composed of the same or similar goods.

28. Form B116 (IN) must be submitted with the goods listed in the unit size in which they will be sold.

Examples of the two reporting methods

Product line method:

- Rum – brand X (1 litre)
- Rum – brand Y (.75 litre)
- Cigarettes – brand Z (king size, 200); or

Product or commodity group method:

- Rum – all brands (1 litre)
- Rum – all brands (.75 litre)
- Fragrance – all brands (250 ml)

29. When a licensee uses the latter method, all unsubstantiated discrepancies will be calculated at the highest value item within the product grouping, unless the licensee can prove that the goods were of a lower value.

30. Inventory codes are to be assigned to each product line or product commodity group carried in the DFS to allow inventory records on each item to be maintained and traceable by the CBSA. Inventory codes must also indicate whether the goods are imported duties and taxes paid (I), imported duties and taxes not paid (IF) or domestic (D).

Goods Sold and Exported — Form B116 (OUT)

31. Domestic and imported goods sold and exported from a DFS are to be reported out of inventory on a monthly basis on Form B116 (OUT), or more frequently if requested by the local CBSA. The reporting method used must also be consistent with the method was used for initial accounting (i.e., same inventory codes, values, etc.). Sales slips or a summary report are not to be included with the form but must be made available to the CBSA upon request.

32. The CBSA is to be informed when any change is made to the description of a product line or product/commodity group.

Alternative Disposal Methods — Form B116 (OUT)

33. Goods cannot be removed from inventory unless they are sold for export. Exceptions include:

(a) Imported goods may be:

- (i) duty and tax-paid by the licensee*;
- (ii) returned to a supplier (in bond);
- (iii) transferred to another DFS (in bond); or,
- (iv) abandoned to the Crown or, as the law permits, destroyed under CBSA supervision.

(b) Excisable goods subject to the [Excise Act, 2001](#) (all domestic or imported liquor, wine or tobacco products) may be:

- (i) returned to the supplier (in bond);
- (ii) transferred to another DFS (in bond); or,
- (iii) abandoned to the Crown for disposal.

(c) Domestic goods may be:

- (i) tax paid by the licensee if the goods were initially delivered into inventory tax-free or a drawback was claimed and paid on the goods*;
- (ii) transferred to another DFS (in bond, if tax is payable including the excise tax where applicable); or,

(iii) abandoned to the Crown or, as the law permits, destroyed under CBSA supervision.

*Note: Duty Free Shop operators may not pay duties and taxes to remove goods from inventory. This is not permitted in section 18 of the *DFSR*. Goods can only be removed from inventory for DFS business-related reasons with the approval of the Commercial Registration Unit (CRU). Business-related reasons include those detailed in this memorandum.

34. Documentation procedures will vary depending upon the circumstances but in all cases Form B116 (OUT) with all applicable documents must be presented to the CBSA before the goods are physically removed from the DFS.

(a) Form BSF241, *Non-monetary General Receipt*, provided by the CBSA is submitted to prove goods have been abandoned to the Crown.

(b) A CAD is used to voluntarily pay applicable duties and taxes when the CRU has approved the removal of imported goods. Instructions for completing a CAD can be found in [D17-1-10, Coding of Customs Accounting Documents](#).

Transferring Goods – Form B116 (TRANSFER)

35. The [Duty Free Shop Regulations](#) outline when the ownership of DFS goods may be transferred.

36. The transfer of goods between DFSs is subject to approval by the local CBSA offices for the involved DFSs.

37. Written approval from the Provincial liquor authority is required for the transfer of intoxicating liquor within the same province. Refer to section 15 of the *Duty Free Shop Regulations*.

38. When transferring goods from one DFS to another, the sending DFS must use a bonded carrier and include a copy of the CBSA approved Form B116 (TRANSFER OUT) with the shipment.

39. The receiving DFS must submit a Form B116 (TRANSFER IN) with a copy of the Form B116 (TRANSFER OUT) along to receive the shipment.

40. Licensees must submit both Form B116 (TRANSFER IN) and Form B116 (TRANSFER OUT) when transferring goods previously accounted for between the off-site storage facility and the DFS.

Reporting Shortages or Overages in Shipments

41. Shortages or overages may be identified during an inventory verification undertaken by the CBSA or any other person authorized by the Minister of Public Safety or may be the result of a voluntary disclosure made by the DFS licensee.
42. The DFS licensee must disclose shortages or overages by submitting Form B116 to inform the CBSA of the new net balance in their inventory.
43. When a shortage or overage in a shipment is identified after reporting the shipment to the CBSA, but before Form B116 (IN) is submitted, the licensee should submit a B116 (IN) that reflects the original invoiced quantity. A notation should be added on Form B116 (IN) indicating the items and amounts missing or in excess. All such shipments will be subject to verification by the CBSA. If the invoice is for goods received, but different from the goods ordered from the supplier, an inventory adjustment is required.
44. The licensee will have 60 days from the date of entering the goods into DFS inventory to produce evidence that a short shipment occurred (e.g., a credit memo or equivalent document from the supplier) or that the missing goods arrived at a later date. If adequate proof is not provided, duties and taxes on the shortage will be owed.
45. The goods and services tax (GST) will be collected when there are unjustified shortages in inventory. The payable amount is calculated based on the value of the missing goods. The excise duty and excise tax on domestic tobacco products (with the exception of cigars) will not be owed as the manufacturer has paid these duties and taxes.

Part one: Imported Goods — Duty and tax not Paid

46. The DFS licensee must submit a CAD to voluntarily account for duties and taxes owing on shortages of imported goods. Refer to procedures in D17-1-10, Coding of Customs Accounting Documents.
47. For shortages listed on the CAD, the DFS operator must also submit a completed Form B116 (OUT). This informs the CBSA of the new net balance in the DFS inventory for all commodities accounted for.
48. For overages, the DFS operator must submit a completed Form B116 (IN) to enter the goods into their inventory. This informs the CBSA of the new net balance in the DFS inventory for all commodities accounted for.
49. For imported goods duties and taxes not paid, the CBSA will verify inventory shortages or overages reported by the DFS and process the CAD and Form B116 submitted by the DFS operator.

Part two: Domestic Goods and Imported Goods — Duties and Taxes Paid

50. The DFS licensee must account for the GST by submitting a B116 (OUT) for shortages of domestic goods and for the GST on shortages of duty-paid imported goods.

51. In these instances the CBSA will provide the DFS licensee with:

- a) an invoice showing the GST amount owing on shortages.
- b) a cash receipt once payment is received for the invoice.

52. When there is a net overage in a certain commodity category, the DFS operator must submit a completed Form B116 (IN) to enter the goods into their inventory.

53. The DFS licensee is liable for the GST on shortages of domestic goods in a DFS inventory under section 28 of the *Customs Act*. The GST will be owed for domestic goods, except on shortages of domestic unstamped cigars, for which applicable excise duties and taxes will be owed.

54. The CBSA will verify inventory shortages or overages reported by the DFS licensee on Form B116 and issue an invoice and a cash receipt if applicable.

55. More information is available in the [Accounting for Imported Goods and Payment of Duties Regulations](#).

Reporting Damaged or Destroyed Goods

56. When goods are damaged, Form B116 must be submitted by the licensee and verified by local CBSA office. If the goods are received damaged, details should be noted on Form B116 (IN).

57. If goods are damaged after being reported into inventory, Form B116 (OUT) is used to adjust inventory records. Damaged goods can then be sent back to the supplier.

58. Goods to be destroyed must be documented by the licensee on [Form E15, Certificate of Destruction/Exportation](#) and made available for inspection by the CBSA. The CBSA officer will verify the goods prior to destruction, and may also choose to oversee the destruction and disposal of the goods.

59. In order to adjust the inventory, the licensee must submit Form B116 (OUT) for approval and attach a copy of the Form E15.

60. Goods can be destroyed under CBSA supervision once verification is complete and Form B116 (OUT) is approved. A special services fee may apply for the CBSA to

oversee the destruction. Please refer to [Memorandum D1-2-1, Special Services](#) for more information.

Adjustments

61. When evidence can be provided that a clerical or recording error has occurred, rather than a shortage or overage, a licensee may request CBSA approval to offset the error. Adjustments in inventory will not be authorized between domestic and imported goods.

62. Factors considered by the CBSA include documents, physical inventory counts, the value of goods, applicable tariff treatments, and inventory security practices and controls. The CBSA will also consider past compliance patterns. The final decision is at the discretion of the CBSA.

Reporting Samples and Display Goods

63. Samples, perfume testers or other promotional items for use in the DFS must be duty and tax paid. To add the goods to inventory and pay duties and taxes, Form B116 (IN) and the CAD must be submitted. For more information on completing the CAD, refer to [Memorandum D17-1-4, Release of Commercial Goods](#), and D17-1-10, *Coding of Customs Accounting Documents*.

Calculating the Value for Duty of Samples and Display Goods

64. Samples and/or display goods used in the DFS may not have a declared dollar value; however, valuation procedures must be followed for the purpose of paying duties and taxes.

65. In general, the value for duty of goods that are purchased by a Canadian importer from foreign vendors should be based on the declared value and adjusted in accordance with subsection 48(5) of the *Customs Act*. However, where the goods are not sold for export but are given to the importer free of charge, the value for duty must be based on an alternative valuation method.

66. Section 47 of the *Customs Act* sets out a hierarchy of alternative methods that includes a value based on the transaction value of identical goods, the transaction value of similar goods, the deductive value of the goods, the computed value of the goods and a residual method.

67. The following valuation methods should be followed where applicable:

(a) Goods that are provided free of charge and are identical or similar to goods in the DFS should be valued according to the transaction value method of identical or similar goods, provided that all conditions are met. For example, the value for duty of a 100-millilitre (ml) bottle of fragrance provided free of charge should be appraised based on the value for duty of an identical 100-ml bottle of the same fragrance provided all other conditions have been met.

(b) If the transaction value of identical or similar samples/display goods is not known, the next method of consideration is the deductive value method, whereby the value for duty would be based on the most common resale price per unit of the goods less an amount for commissions or profit and general expenses.

(c) The next method, computed value method, bases the value for duty on the cost of materials, labour, profit and general expenses, if these details are known. If costs are unknown, the supplier should be contacted for assistance.

(d) Ultimately if the other methods are not applicable, the value for duty will need to be determined under the residual method.

For example, in situations where a fragrance sampler is a different size than the rest of the bottles received for sale in the DFA, the residual value method can be applied by determining the cost of the fragrance per ml and appraising the value for duty based on the volume of the fragrance that is imported free of charge. For example, a 250 ml bottle may have a value of \$100 or \$0.40 per ml. Therefore, a 10 ml container of the same fragrance priced at \$0.40 per ml should have a value of \$4 under the residual method.

This provides a brief overview of how to value sample and display goods. For detailed information on how to determine a value for duty for such goods, please refer to the [Customs Valuation Handbook](#), which contains value for duty calculation templates for each valuation method.

68. Goods that have been reported and accounted for as DFS inventory can only be used for display purposes in the shop. Exterior locked displays require local CBSA approval for both land and airport DFS.

Sale or Disposal of Inventory

69. All goods sold at a DFS are for immediate export only and must be declared to the CBSA if returned to Canada.

70. DFS sales receipts must be bilingual and numbered sequentially. The following information is to be recorded on the receipt at time of sale:

- (a) shop identification;
- (b) date;
- (c) product code(s)/product identifier(s);
- (d) selling price;
- (e) quantity;
- (f) total value;
- (g) vehicle licence plate number or flight number; and,
- (h) the statement: "Goods sold are for export only and must be declared to the CBSA if returned to Canada."

71. Sales invoices must be prepared in duplicate when an automated system isn't in use. When an automated system is in use, electronic receipts will be accepted.

72. The licensee must be capable of producing accurate sales reports that refer back to a receipt, re-printing past transactions or providing a transaction history upon CBSA request. Standard operating practice is to back up all systems on a regular basis.

73. At an airport, a boarding pass or ticket showing a foreign destination must always be presented by the traveller at the time duty-free goods are sold. For flights departing from Canada on a progressive boarding basis, duty free goods may be sold to boarding passengers at each airport of embarkation, subject to the conditions outlined in [Memorandum D2-5-5, Progressive Clearance at Airports](#).

74. Where a delivery system is in operation, the customer must be provided with a proof of purchase. The licensee will deliver the goods to an area that ensures their immediate export. At this point, the customer will provide their proof of purchase, and the licensee will give a copy of the sales invoice to the customer with the goods.

75. Where a DFS is located in an area not readily serviceable by the CBSA and it is necessary for the CBSA to verify the export of goods, the licensee may be required to pay special service charges. More information pertaining to special services can be found in Memorandum D1-2-1, *Special Services*.

Off-site Sales Outlets and Pre-Order Websites

76. Where the DFS licensee has been approved by the CBSA to operate an off-site sales outlet or a pre-order website, the DFS may accept a deposit or payment provided this transaction is clearly communicated as an 'agreement to sell' at the time the goods are reserved. It must be clear to the purchaser that the pick-up of the goods will take place at a future time when they are about to leave the country.

77. The purchaser of the goods must have the option to cancel this agreement at any time prior to pick-up, and if the goods are not picked-up a credit will be given to the

purchaser for the amount paid. The sale will be cancelled and payment returned if the purchaser is unable to leave Canada.

78. All websites and outlets must conform to the signage, official language and security requirements outlined in the *Duty Free Shop Regulations*.

Restrictions

79. Liquor and tobacco products cannot be sold to minors defined under the laws of the province in which the DFS is located.

Inspections

80. DFS inspections are conducted by the CBSA to ensure the licensee is meeting the requirements of the DFS program. Regardless of the compliance history at a particular DFS location, verifications should be conducted once per year minimum. The licensee is to make available all inventory records as requested. Access to these records is also to be accorded to any other person authorized by the Minister to conduct such verifications.

81. The CBSA has the authority to audit a DFS at any time under section 27 of the *Customs Act*.

82. In accordance with section 28 of the *Customs Act*, unsubstantiated inventory shortages identified during a physical audit will be assessed all applicable duties and taxes.

References

- [D1-2-1: Special Services](#)
- [D2-5-5: Progressive Clearance at Airports](#)
- [D4-3-2: Duty Free Shop – Licensing](#)
- [D17-1-4: Release of Commercial Goods](#)
- [D17-1-10: Coding of Customs Accounting Documents](#)
- [D19-7-1: Interpretation of the Wild Animal and Plant Protection and Regulation of International and Interprovincial Trade Act \(WAPPRITA\) and the Convention on International Trade in Endangered Species of Wild Fauna and Flora \(CITES\)](#)
- [Customs Valuation Handbook](#)
- [B116, Canada border services agency duty free shop accounting document](#)
- [CI1, Canada Customs Invoice](#)
- [E15, Certificate of Destruction/Exportation](#)

Applicable legislation

- [Customs Act](#)
- [Excise Act, 2001](#)
- [Duty Free Shop Regulations](#)
- [Imported Goods Records Regulations](#)
- [Accounting for Imported Goods and Payment of Duties Regulations](#)

Superseded memoranda D

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Issuing office

Regulatory Trade Programs Division
Trade and Anti-dumping Programs Directorate
Commercial and Trade Branch

Contact us

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