



Ottawa, September 29, 2003

# MEMORANDUM D13-4-10

## DISCOUNTS (CUSTOMS ACT, SECTION 48)

1. This Memorandum outlines and explains the treatment of discounts in determining a transaction value under section 48 of the *Customs Act*.

## GUIDELINES AND GENERAL INFORMATION

### Legislation

The legislative excerpts below are included in PART III of the *Customs Act*:

Per section 45(1):

“price paid or payable”, in respect of the sale of goods for export to Canada, means the aggregate of all payments made or to be made, directly or indirectly, in respect of the goods by the purchaser to or for the benefit of the vendor;

Per subsection 48(5)(c):

The price paid or payable in the sale of goods for export to Canada shall be adjusted

(c) by disregarding any rebate of, or other decrease in, the price paid or payable for the goods that is effected after the goods are imported.

### Explanation of Terms

1. 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 vendor 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).

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

3. If a discount is effected—that is, the obligation or condition necessary for a discount is fulfilled or met—prior to importation, the amount of that discount should be considered when calculating the price paid or payable for the imported goods.

4. With the exception of cash discounts, the amount of a discount effected after importation cannot be deducted from the price paid or payable for the imported goods. This is in accordance with paragraph 48(5)(c).

5. As an example of a discount made before 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 to the purchaser because he operates at the retail level of trade, resulting in a total price paid or payable of \$90. Since they 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 section 48 being met.

6. In some instances, a cash discount may be available to the purchaser but may not have been taken at the time of importation. In the interests of equity, when the purchaser intends to take the cash discount but has not yet done so at the time of importation, the amount of the discount may be considered in calculating the price paid or payable for the goods when determining the transaction value. For example, a firm in Canada purchases a machine from a foreign manufacturer, the list 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, customs will allow the purchaser to deduct the amount of the discount from the price list, resulting in a price payable of \$9,500 upon which transaction value can be based.

7. The importer may be required, at the time of importation or subsequently, to satisfy customs that the cash discount will be or has been taken.

**Note:** For coding purposes, the value for duty code on accounting documents should reflect discounts (such as cash discounts) as part of the price paid or payable rather than as adjustments. For example, when the obligation or condition necessary for a discount is fulfilled or met prior to the importation, the value for duty code should be code 13 or 23 if the purchaser and the vendor are related parties. When adjustments per subsection 48(5) occur, the value for duty code should be code 14 or 24 if the purchaser and the vendor are related parties.

## REFERENCES

<b>ISSUING OFFICE –</b> Origin and Valuation Division Trade Policy and Interpretation Directorate	<b>HEADQUARTERS FILE –</b> 7034-5-6, 7034-5-56
<b>LEGISLATIVE REFERENCES –</b> <i>Customs Act</i> , subsection 45(1) and section 48	<b>OTHER REFERENCES –</b> D13-4-3
<b>SUPERSEDED MEMORANDA “D” –</b> D13-4-10, May 8, 2003	

Services provided by the Canada Customs and Revenue Agency are available in both official languages.

This Memorandum is issued under the authority of the Commissioner of Customs and Revenue.

