

MEMORANDUM D13-8-1

Ottawa, March 22, 2001

SUBJECT

“COMPUTED VALUE” METHOD (CUSTOMS ACT, SECTION 52)

This Memorandum outlines the manner in which a value for duty is determined under the computed value method (section 52 of the *Customs Act*).

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GUIDELINES AND GENERAL INFORMATION

1. The computed value method is used in those cases where the conditions of the transaction involving the imported goods are such that the importer cannot determine the value for duty under any of the previous methods of valuation. The importer may, under the provisions of subsection 47(3) of the *Customs Act*, reverse the order of application of the valuation methods described in the deductive value method (section 51) and the computed value method (section 52).
2. Paragraphs 52(2)(a) and (b) set out the elements which are to be included in the computed value.

Materials and Production or Other Processing

3. In calculating the computed value, subparagraphs 52(2)(a)(i) and (ii) require that the costs, charges, and expenses or the value of the following be included:
 - (a) materials employed in producing the goods being appraised; and
 - (b) the production or other processing of the goods being appraised.

4. Under the provisions of subparagraphs 52(3)(a) to (c), the following are considered to be included in the elements shown above and are therefore to be included in the computed value:

- (a) the packing costs and charges referred to in subparagraph 48(5)(a)(ii) (see also Memorandum D13-4-7, *Adjustments to the Price Paid or Payable (Customs Act, Section 48)*);
- (b) the value of the goods and services referred to in subparagraph 48(5)(a)(iii);
- (c) any costs, charges, and expenses incurred by the producer in respect of engineering, development work, art work, design work, plans, or sketches undertaken in Canada.

5. The amounts referred to in paragraphs 3 and 4 above must, under subsection 6(1) of the *Valuation for Duty Regulations*, be determined on the basis of the commercial accounts of the producer or other sufficient information relating to the production of the goods being appraised. This information is to be supplied by or on behalf of the producer of the goods and prepared in a manner consistent with the generally accepted accounting principles of the country of production (see Memorandum D13-1-1, *Valuation for Duty Regulations*, and Memorandum D13-3-8, *Generally Accepted Accounting Principles (Customs Act, Sections 48 to 53)*).

Assists

6. The value of the goods and services referred to in paragraph 4(b) is to be determined and apportioned to the goods being appraised in the manner described in subparagraph 48(5)(a)(iii) (see Memorandum D13-4-8, *Assists (Customs Act, Section 48)*).

7. While the value of the elements specified in subparagraph 48(5)(a)(iii) (assists) is considered as part of the elements specified in subparagraphs 52(2)(a)(i) and (ii) and therefore part of the computed value, the manner in which the value is added to the computed value depends on whether the assist has been provided free or at a reduced charge. The value of an assist provided free of charge should not be included as part of the elements in subparagraphs 52(2)(a)(i) and (ii) for the purposes of calculating an amount for profit and general expenses over costs as specified in paragraph 52(2)(b), but should be added as part of the elements of subparagraphs 52(2)(a)(i) and (ii) only after this calculation has been made. The value of an assist provided at a reduced cost is to be treated as above, for that portion of the value provided at no cost to the producer. The portion of the value for which the producer incurs a cost or charge is to be added to the elements in subparagraphs 52(2)(a)(i) and (ii) when calculating the amount for profit and general expenses over costs as specified in paragraph 52(2)(b). The examples provided in paragraphs 16 and 17 illustrate the calculation of a computed value in both the above situations.

Engineering, Development Work, Etc., Undertaken in Canada

8. The amount of costs, charges, and expenses referred to in paragraph 4(c) is to be apportioned to the goods being appraised in the manner described in subparagraph 48(5)(a)(iii) (see Memorandum D13-4-8).

Profit and General Expenses

9. Under paragraph 52(2)(b), an amount for profit and general expenses, considered together as a whole, is to be added to the cost of production of the goods being appraised. This amount to be added is that which is generally reflected in sales for export to Canada of goods of the same class or kind as the goods being appraised made by producers in the country of export.

10. Subsection 6(2) of the *Valuation for Duty Regulations* states that the amount for profit and general expenses is to be calculated on a percentage basis and determined from sufficient information prepared in a manner consistent with the generally accepted accounting principles of the country of production.

11. Under subsection 6(2), this information is, in the first instance, to be supplied by or on behalf of the producer of the imported goods. Normally, this information need only relate to the producer's own figures for export sales to Canada. These figures will be used as the basis for the adjustment if they are themselves based on sufficient information, prepared in accordance with generally accepted accounting principles, and if it can be determined that they are consistent with those figures generally reflected in sales for export to Canada of goods of the same class or kind. The figures used by customs to verify if the producer's own figures are consistent will be obtained from export sales to Canada of goods of the same class or kind by producers who are not related to the purchaser and/or from producers who, though related to the purchaser, have previously demonstrated to customs that the price paid or payable has not been influenced by the relationship. The sales examined will be from the narrowest group or range of goods of the same class or kind as the goods being appraised.

12. Where the amount for profit and general expenses supplied by or on behalf of the producer is acceptable, customs will apply it under paragraph 52(2)(b). Where the figures supplied by or on behalf of the producer are unacceptable, customs will apply an amount determined in accordance with section 6 of the *Valuation for Duty Regulations* and paragraph 11.

13. In this regard it should be noted that the amount for profit and general expenses will be taken as a whole. If, in a particular case, the producer's profit figure is low and his general expenses are high, his profit and general expenses taken together may nevertheless be consistent with that usually reflected in sales of the goods of the same class or kind. Such a situation might occur, for example, where a product is being introduced and the producer accepts a nil or low profit to offset high general expenses associated with the introduction of the new product.

14. It may occur in other cases that the producer's figures for profit and general expenses taken together are lower than those usually reflected in sales for export to Canada because the producer's profit on these sales is lower. There may be valid commercial reasons, in terms of the usual marketing or pricing practices of the branch of industry concerned, for the producer taking a lower profit. In such cases customs would be prepared to consider representations by or on behalf of the producer which would establish that these profit figures, although inconsistent with those generally reflected in sales for export to Canada of goods of the same class or kind, are acceptable when account is taken of the usual marketing or pricing practices of the branch of industry concerned.

15. Under subsection 6(3) of the Regulations, where information supplied by or on behalf of the producer is not sufficient information, the amount added for profit and general expenses will be based on information drawn from an examination of sales for export to Canada. The sales examined would be of the narrowest group or range of goods of the same class or kind as the goods being appraised made by producers in the country of export, including the goods being appraised, from which sufficient information can be obtained.

Examples of Calculating a Computed Value

16. This first example illustrates the calculation of the computed value where an assist has been supplied free of charge to the producer of the goods being appraised:

(a) A Canadian firm purchases and imports architectural equipment from foreign firm A. The methods of valuation described in sections 48 to 51 are found to be inapplicable. The determination of the value for duty of the imported goods proceeds, therefore, under section 52.

(b) Drawing on the commercial accounts of the producer A, the following costs are determined:

materials	\$10
direct labour	8
factory overhead	12
packing	<u>1</u>
	\$31

(c) In addition to the above, the Canadian purchaser provides firm A, free of charge, plans undertaken outside Canada and necessary for the production of the imported goods. The value of these plans, apportioned over the total number of units imported, equals \$1 per unit.

(d) Firm A is able to provide sufficient information relating only to the profit and general expenses generally reflected in that firm's own sales for export to Canada of goods of the same class or kind: 20%. However, that figure is consistent with the amount generally reflected by producers in the country of export in sales of such goods for export to Canada and, thus, is acceptable.

(e) Expressed as a percentage of the costs incurred by the producer, the amount for profit and general expenses equals \$6.20.

(f) The computed value of the imported goods is therefore \$38.20. This value has been calculated by taking the costs (plus the value of the assist provided free) plus the amount of profit and general expenses as a percentage of actual costs incurred by the producer, i.e., [$\$31.00 + \$1.00 + (20\% \text{ of } \$31.00)$] or $(\$31.00 + \$1.00 + \$6.20 = \$38.20)$.

17. This second example is based on the first one, except that the plans undertaken outside Canada and necessary for the production of the imported goods have been charged at a reduced cost to foreign producer A.

(a) The value of the plans charged to the producer, and apportioned over the total number of units imported equals \$0.50 per unit.

(b) The value of the plans not charged to the producer ("assist") and apportioned over the total number of units imported equals \$0.50 per unit.

(c) Assuming the commercial accounts of the producer A do not include the value of the plans charged to him, his costs equal \$31.00 as in the previous example.

(d) The producer's profit and general expenses figure remains the same since it represents the firm's profit and general expenses on its sales for export to Canada of goods of the same class or kind.

(e) The computed value of the imported goods is, in this example, \$38.30:

materials, processing costs, packing	\$31.00
plans (assist) to the extent incurred by the producer	<u>0.50</u>
	\$31.50
plans (assist) not charged to the producer	<u>0.50</u>
	\$32.00
profit and general expenses (20% × 31.50)	<u>\$ 6.30</u>
computed value for duty	\$38.30

REFERENCES

ISSUING OFFICE –

Origin and Valuation Policy Division
Trade Policy and Interpretation Directorate

LEGISLATIVE REFERENCES –

Customs Act, section 52
Valuation for Duty Regulations, section 6

HEADQUARTERS FILE –

7034-5-52

SUPERSEDED MEMORANDA “D” –

D13-8-1, June 1, 1986

OTHER REFERENCES –

D13-1-1, D13-3-8, D13-4-7, D13-4-8

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.