



Ottawa, November 19, 2013

# MEMORANDUM D13-10-1

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## IN BRIEF

### Used Goods

1. The editing revisions made in this memorandum do not affect or change any of the existing policies or procedures.
2. The Appendix containing estimated useful life of various products has been deleted.





Ottawa, November 19, 2013

# MEMORANDUM D13-10-1

## Used Goods

This memorandum outlines and explains the manner in which the value for duty of used goods, other than used motor vehicles, is determined under the [Customs Act](#). [Memorandum D13-10-2, Used Automobiles, Motor Vehicles, Boats, and Other Vessels](#), outlines the manner in which the value for duty of used motor vehicles is to be determined.

## Legislation

Sections 48 to 53 of the [Customs Act](#).

## Guidelines and General Information

### Used Goods Valued Under the Transaction Value Method (Section 48 of the *Customs Act*)

1. Where used goods are 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 for the goods is to be used as the basis for determining the value for duty. For more information on the transaction value method, refer to [Memorandum D13-4-1, Transaction Value Method of Valuation](#).

2. Attention is drawn to subparagraph 48(5)(a)(ii) of [the Act](#) which requires that all costs, charges, and expenses incurred by the purchaser, incident to placing the goods in the condition in which they are shipped to Canada, must be included in the transaction value. As an example, a Canadian firm purchases used machinery from a foreign vendor on an “as is, where is” basis. The Canadian purchaser then contracts with a third person who disassembles the machinery and crates it for export to Canada. All costs, charges, and expenses incurred by the Canadian purchaser for the operation would be included as part of the value for duty.

### Used Goods Not Valued Under the Transaction Value Method

3. If the requirements of section 48 of [the Act](#) are not met, the value for duty must be determined under one of the subsequent methods of valuation applied in sequential order. Attention is drawn to two specific sets of circumstances where section 48 of the Act would not be applicable because a sale for export to Canada would not be considered to have occurred:

- (a) as part of an arrangement separate from the contract of sale, the goods are reconditioned, refurbished, modernized, or otherwise improved prior to their importation into Canada; and
- (b) the imported goods—whether purchased new or used—are subject to use prior to their importation into Canada, excepting motor vehicles where the intervening use is confined to the use of the vehicle as its own means of transportation.

4. In both of the situations outlined above, there is a change in the condition of the goods brought about by the deliberate action of the purchaser prior to importation. As a result, they could not be considered to be the goods originally sold to the purchaser. That original sale cannot be considered, therefore, to be a sale for export to Canada for the purposes of section 48 of [the Act](#).

### Application of Alternate Valuation Methods

5. Where section 48 of [the Act](#) cannot be used, certain difficulties may arise in applying sections 49 to 52 of the Act to appraise importations of used goods. These potential difficulties are outlined below.
6. Sections 49 and 50 of [the Act](#) allow for the valuation of goods based on the transaction value of identical or similar goods. However, as the goods being valued are used goods, it may be difficult to find sales to Canada of goods which could be considered identical or similar and which meet all the requirements of sections 49 and 50 of the Act.
7. Under section 51 of [the Act](#), goods are valued on the basis of sales in Canada of the goods being appraised, or of identical or similar goods. If there are sales in Canada of the goods being appraised, it may be possible to determine the value for duty under this section. Where there are no such sales because the goods being appraised are imported for use in Canada rather than for resale, the difficulty of finding other sales of goods which could be considered identical or similar to the goods being appraised may preclude the application of this method.
8. Under section 52 of [the Act](#), goods are valued using the computed value method which is based, among other things, on the cost of production of the goods being appraised plus an amount for profit and general expenses. However, since used goods are not manufactured as such, it is not possible to calculate the cost of production.

### **Application of the Residual Method of Valuation (Section 53 of the *Customs Act*)**

9. It follows that since there may be difficulty in applying sections 49 to 52 of [the Act](#), used goods which cannot be appraised under section 48 of the Act will, in some cases, be valued using the residual method under section 53 of the Act. In order to ensure that the approach applied reflects commercial reality and results in a value which is fair, uniform, and neutral, the valuation procedure may often require a process of close consultation between the importer of the goods and the Canada Border Services Agency (CBSA). Although a standard method of valuation is not appropriate, guideline methods may be useful in the application of this section. The following paragraphs outline several such guideline methods.

10. In a situation where the goods have been reconditioned, refurbished, modernized, or otherwise improved after the sale but prior to importation, the CBSA would normally accept a value for duty based on the aggregate of the following:

- (a) the price paid or payable for the goods adjusted in accordance with the provisions of subsection 48(5) of [the Act](#); and
- (b) an amount equal to the total costs, charges, and expenses incurred by the purchaser for such work.

11. In many other cases, the value for duty may be determined under the provisions of section 53 of [the Act](#), by flexibly applying section 49 or 50 of the Act using the transaction value of identical or similar new goods exported at the same or substantially the same time as the goods being appraised. In addition to the adjustments provided for in sections 49 and 50 of the Act, the transaction value of such new goods will also be adjusted to account for differences in value as a result of:

- (a) depreciation, based on the life expectancy of the used goods for the period in use;
- (b) obsolescence, where warranted; and
- (c) condition, if other than average for the period in use.

12. Adjustments to the transaction value are initially made for differences in trade level and quantity, as well as transportation and associated costs as set out in subsections 49(3) and 50(2) of [the Act](#). Deductions are then made for depreciation, followed by allowances, where warranted, for obsolescence and condition.

13. In the case of goods being appraised where the obsolescence factor is extremely high, appraisal may be made on the basis of the transaction value of identical or similar new goods exported to Canada at the same or substantially the same time as the goods being appraised were sold new. Adjustments are then made to the

transaction value of such goods as provided for in sections 49 and 50 of [the Act](#), and for depreciation and condition only.

### **Depreciation**

14. Depreciation is the reduction in service value throughout the useful life of goods resulting from normal wear and tear. It is ordinarily continuous throughout the useful lives of goods but can be partly offset by repairs and proper maintenance.

15. There are several methods of calculating depreciation. Whichever method is used, it must be based on a reasonable estimate of the useful life of the asset and on generally accepted accounting principles.

16. In calculating depreciation, it is normally assumed that at the end of the depreciation period the asset has little or no value. Exceptions to this may occur, for example, in cases where the original estimate of useful life was inaccurate. In such cases, the "residual" or remaining value will be taken into account in accordance with generally accepted accounting principles.

### **Obsolescence**

17. Obsolescence results from technological improvements, such as changes in machine design or capacity, or inventions. Since the current models of new machinery and equipment may incorporate improvements of varying degrees which are not found on the imported used models, an allowance for obsolescence may be granted in certain circumstances.

18. In considering obsolescence, consideration will be given to both technological change and to the question of style, fashion, and changing market preference.

19. Generally, the question of obsolescence will be considered only after full provision has been made for depreciation. Obsolescence may be used as an adjustment of depreciated value in circumstances where the depreciation rate did not adequately take into account significant changes in technology or market preference.

20. If the value arrived at, using an acceptable method of depreciation, is significantly different from what the importer believes to be the market value of the goods, the importer may supply the CBSA with objective information on the value which the market has established for the particular type of goods, which would justify to customs that further adjustments should be made for obsolescence or for the unusual condition of the goods. Only then will a further adjustment from the depreciated value be considered.

21. Goods with a relatively short life expectancy are likely to have a high depreciation rate and as such a factor for obsolescence would not normally be justified.

22. For goods with a relatively long life expectancy, an allowance will be made for obsolescence only if the importer can demonstrate that such an allowance is warranted and can provide evidence to support the amount claimed.

### **Condition**

23. The condition of the goods, if other than average, could result in an adjustment of the appraisal, either upwards or downwards. If the goods are in reasonable operating condition or average condition, no allowance would be made for condition.

24. Where the importer can demonstrate that the machine is in poorer than average condition taking into account the number of years in use, this may be taken into consideration when appraising the goods provided that satisfactory independent evidence in support of an allowance for condition is presented to the CBSA.

25. Where repairs are necessary after importation to restore the machinery or equipment to reasonable operating condition, this fact may be taken into consideration when

deciding on an amount for the condition adjustment. No allowance is made for the cost of modernization or alterations. The actual cost of the repairs would not, of course, be known when the goods were appraised at the time of importation. This provision, therefore, would apply only in response to a request for re-appraisal, and the allowance would be substituted for any other allowance for condition made in calculating the value for duty at which the goods were entered. A request for a re-appraisal must be submitted within 90 days after the date the appraisal was made and must be accompanied by evidence to support the cost of such repairs.

### **Additional Information**

26. For more information, call contact 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):

1-204-983-3550 or 1-506-636-5064

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

[Contact Us online](#) (webform)

[Contact Us](#) at the CBSA website

**REFERENCES**

<b>ISSUING OFFICE –</b> Trade Programs Directorate	<b>HEADQUARTERS FILE –</b> 79070-4-8
<b>LEGISLATIVE REFERENCES –</b> <a href="#">Customs Act</a>	<b>OTHER REFERENCES –</b> <a href="#">D13-4-1</a> , <a href="#">D13-10-2</a>
<b>SUPERSEDED MEMORANDA “D” –</b> D13-10-1, March 28, 2001	

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