



Ottawa, August 9, 2013

MEMORANDUM D13-7-1

In Brief

DEDUCTIVE VALUE METHOD – DETERMINATION OF THE PRICE PER UNIT

1. The editing revisions made in this memorandum do not affect or change any of the existing policies or procedures.
2. Clarifications have been made to the meaning of “sales at the first trade level”.





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DEDUCTIVE VALUE METHOD - DETERMINATION OF THE PRICE PER UNIT

This memorandum outlines and explains the determination of the price per unit under the deductive value method.

Legislation

Sections 47, 48, 51, and 52 of the *Customs Act*: <http://laws-lois.justice.gc.ca/eng/acts/C-52.6/section-1.html>.

GUIDELINES AND GENERAL INFORMATION

1. The deductive 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 deductive value method (section 51) and the computed value method (section 52). The price per unit is the basis upon which a calculation of value for duty under the deductive method is made.

Price Per Unit

- 2. The price per unit is the price at which the greatest number of units is sold.
- 3. As an example of this, after their importation to Canada, goods are sold from a price list which grants favourable unit prices for purchases made in larger quantities.

Sale Quantity	Unit Price	Number of Sales	Total Quantity Sold at Each Price
1 to 10 units	\$100	10 sales of 5 units 5 sales of 3 units	65 units
11 to 25 units	\$95	5 sales of 11 units	55 units
Over 25 units	\$90	1 sale of 30 units 1 sale of 50 units	80 units

The greatest number of units sold at a particular price is 80 units; therefore, the price per unit is \$90.

4. As another example, after importation to Canada two sales of a good occur: In the first sale, 500 units are sold at a price of \$95 each. In the second sale, 400 units are sold at a price of \$90 each. In this example, the greatest number of units sold at a particular price is 500 units; therefore, the price per unit is \$95.

5. As a third example, after importation to Canada various quantities are sold at various prices, as reflected in the following table:

Sale Quantity	Sales	Unit Price
40 units		\$100
30 units		\$90
15 units		\$100
50 units		\$95
25 units		\$105
35 units		\$90
5 units		\$100

Total Quantity Sold	Total Sales	Unit Price
65 units		\$90
50 units		\$95
60 units		\$100
25 units		\$105

In this example, the greatest number of units sold at a particular price is 65 units; therefore, the price per unit is \$90.

Requirements

- 6. For the purposes of determining the price per unit, the sales used must be made to persons at the first level of trade after importation and who:
 - (a) are not related to the persons from whom they buy such goods; and
 - (b) have not supplied, directly or indirectly, free of charge or at a reduced cost, any of the goods or services (assists) referred to in subparagraph 48(5)(a)(iii).
- 7. "The first level of trade..." means the level at which the first domestic sale concluded after importation has occurred, and includes sales to a purchaser at any commercial level (for example, a wholesaler, a distributor, a retailer). In determining the price per unit, no account is to be taken of the trade level of the purchaser. This provision excludes sales by a vendor who is related to the purchaser, or sales by a vendor to any purchaser that has supplied an assist (see paragraph 6).
- 8. Where goods are imported to Canada as a consequence of a sale transaction, including any agreement to sell that is not concluded at time of importation, the applicability of the transaction value method (section 48) should be considered

before any other valuation method. If a valuation under sections 48 to 50 cannot be made, the deductive value method may be applicable if there is a sale of the goods at the first level of trade after the sale or agreement to sell that prompted the international transfer of the goods. The deductive value method expects that value for duty will be based upon a price per unit derived from a sale of goods after importation, and not from a sale that prompted the international transfer of the goods.

9. The following example illustrates how the price per unit is to be determined in cases where an importer sells to various trade levels in Canada.

Sales to Distributors	
Sale Quantity	Unit Price
6000 units	\$0.95
5700 units	\$0.98
1000 units	\$1.00

Sales to Wholesalers	
Sale Quantity	Unit Price
2000 units	\$1.00
1900 units	\$1.04
1500 units	\$1.06

Sales to Retailers	
Sale Quantity	Unit Price
4000 units	\$1.00
2500 units	\$1.08
1500 units	\$1.10

Total Sales	
Total Quantity Sold	Unit Price
6000 units	\$0.95
5700 units	\$0.98
7000 units	\$1.00
1900 units	\$1.04
1500 units	\$1.06
2500 units	\$1.08
1500 units	\$1.10

In this example, the greatest number of units, 7000 units in total, is sold at \$1.00. The price per unit is therefore \$1.00.

Sufficient Number of Sales

10. Subsection 51(3) specifies that, in determining a price per unit, there must be a sufficient number of sales to permit a determination of the price per unit.

11. The number of sales that constitutes a sufficient number will depend on the circumstances and the marketing practices surrounding an importation and the sales in Canada of the imported goods.

12. For example, if only a small percentage of the imported goods are sold within the time limits established in subsection 51(2), these sales may be acceptable for the

purposes of establishing a price per unit if the price at which they are sold is consistent with the usual selling price of the goods. This usual price may be indicated by a “bona fide” price list supported by commercial invoices or, where a price list is not used, by examining the recent trading history of the importer.

13. The price per unit at which the greatest number of goods is sold would not be acceptable if the number of goods sold is only a small percentage of the total sales of those goods.

14. However, there will be situations in which a single sale may be a sufficient number to permit determination of a price per unit. For example:

(a) a single unit is imported and the nature of the goods is such that no identical or similar imported goods have been imported, or are likely to be imported, within the time limits established in subsection 51(2).

In this case, only one sale can occur on which to base a price per unit and such a sale will be deemed to constitute a sufficient number of sales.

(b) 1000 units of a particular item are imported and only one sale, consisting of the whole 1000 units, is made in Canada within the time limits established in subsection 51(2). In this case, only one sale has occurred but since this sale constitutes the total amount imported, and no other sales are possible, it will be considered to be a sufficient number of sales.

15. A price per unit determined on a single sale of previously imported goods, as in examples (a) and (b) in paragraph 14, will normally not be acceptable in valuing any future importations of identical or similar goods. The circumstances pertaining to any future importations would have to be reviewed to ensure that the sales in Canada did not significantly differ with respect to the quantities and prices at which the goods were previously sold. However, if the imported goods are only sold to one trade level and at one price on an ongoing basis, and that price is substantiated by evidence such as a “bona fide” price list supported by commercial invoices or several previous sales reflecting the usual commercial practices of the importer, the single sale of previously imported goods may be acceptable in determining the price per unit.

Goods and Services Tax

16. The amount, if any, of the goods and services tax or other domestic retail sales tax added to, or included in, the selling price of the goods should be excluded in determining the price per unit (refer to Memorandum D13-2-5, *Customs Valuation: Effects of the Goods and Services Tax*).

Adjustment of the Price Per Unit

17. Under the deductive value method, the price per unit of the goods sold under the provisions of paragraphs 51(2)(a), (b), or (c) is adjusted by deducting an amount for the

elements set out in subsection 51(4) (refer to Memorandum D13-7-3, *Deductive Value Method – Deductions From the Price per Unit*).

Additional information

18. 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

ISSUING OFFICE – Trade Programs Directorate	HEADQUARTERS FILE – 79070-4-5
LEGISLATIVE REFERENCES – <i>Customs Act</i>	OTHER REFERENCES – D13-2-5, D13-7-3
SUPERSEDED MEMORANDA “D” – D13-7-1, March 9, 2001	

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Printed in Canada