



# Memorandum D8-2-11: Goods Returning to Canada After Being Altered or Worked on Outside Canada

Ottawa, October 21, 2024

This memorandum addresses various concerns that have been raised relating to the term "alteration" as it appears in tariff item Nos. 9992.00.00 and 9971.00.00 of the [Customs Tariff](#) and the term "work" as it appears in the Canadian Goods Abroad provisions in sections 101 to 105 of the *Customs Tariff*. In addition, this memorandum clarifies the goods and services tax/harmonized sales tax (GST/HST) treatment of goods returning to Canada after being altered or worked on abroad and the documentation of these goods.

## Plain language summary

**Target audience:** Importers of commercial goods.

**Key content:** This memorandum addresses various concerns that have been raised relating to the term "alteration" as it appears in tariff item Nos. 9992.00.00 and 9971.00.00 of the Customs Tariff and the term "work" as it appears in the Canadian Goods Abroad provisions in sections 101 to 105 of the Customs Tariff.

**Keywords:** CUSMA, CARM, Duty Drawback Program, Duties Relief Program, imports, exports, trade chain partners, customs duties.

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## Updates made to this D-memo

- The revisions made in this memorandum do not affect or change any of the existing policies, but reflect the replacement of Form B3 3, *Canada Customs Coding Form* & Form B2, *Canada Customs Adjustment Request* with the *Commercial Accounting Declaration (CAD)*.

## Guidelines and general information

### Definitions

1. For the purposes of administering tariff item Nos. 9992.00.00 and 9971.00.00, the term "alteration" consists of an operation that does not destroy the essential characteristics of a good or create a new or commercially different good. An operation or process that is part of the production or assembly of an unfinished good into a finished good is not an alteration. This definition of "alteration" originates in Article 318 and Note 11 of the [The Canada-United States-Mexico Agreement \(CUSMA\)](#). The term "essential characteristics" is administered as meaning the important distinguishing features or qualities of a good. For additional information regarding tariff item Nos. 9971.00.00 and 9992.00.00 see Memoranda [D8-2-25, Canadian Vessels Repaired or Altered in the United States, Mexico, Chile, Israel or Another CIFTA Beneficiary, Colombia, Costa Rica, Peru, Jordan, Panama, Iceland, Liechtenstein, Switzerland or Norway](#) and [D8-2-26, Goods Re-entered After Repair or Alteration in the United States, Mexico, Chile, Israel, or Another CIFTA Beneficiary, Costa Rica, Peru, Colombia, Jordan or Panama](#).

2. For the purposes of administering the Canadian Goods Abroad Program, the term "work" refers to an operation that changes the shape of a good or imparts new and different characteristics to a good that become an integral part of the good itself and did not exist in the good before the process was applied to it. An operation or process that is part of the production or assembly of an unfinished good into a finished good is also considered to be "work." For the purposes of the Canadian Goods Abroad Program, an "alteration" is considered to be "work."

3. The term "value of the processing" used in this memorandum means the value of the alteration or work done abroad, the value of any assists and the value of any freight and associated charges incurred prior to or at the place of direct shipment of the good back to Canada. With regards to owner-supplied equipment, which is Canadian-sourced, duty-paid or duty-free, such materials are considered to be "assists" and form part of the value of the processing of the good upon its return to Canada. At the time of export, the importer can request a drawback of any customs duties previously paid on the owner-supplied equipment. The transportation costs of sending the goods to a location outside Canada and the cost of insuring the goods from the date of export to the date the goods

begin their return journey to Canada also form part of the value of the processing calculation.

## **Difference between work and alteration**

4. In some cases, it is very clear when the process applied to a good is "work." For example, cloth exported and made into shirts and wood exported and made into tables. The process applied to the goods materially altered the essential characteristics of the goods. Therefore, the goods will not qualify for tariff item No. 9992.00.00 and the importer should expect to pay full customs duty on the goods when they return to Canada, unless the goods meet the conditions of the Canadian Goods Abroad Program. The Canada Border Services Agency (CBSA) must authorize use of the Canadian Goods Abroad Program before the goods are exported to be worked on.

5. For example, tomato juice under tariff item No. 2009.50.00 is exported from Canada in barrels to the United States to be mixed with other vegetable juices and bottled into single servings. When the juice returns to Canada, it will have lost its classification as tomato juice. It will be a commercially different good classified under a different tariff item (in this case, tariff item No. 2009.90.40). Therefore, the juice does not qualify under tariff item No. 9992.00.00.

6. Where a good retains its essential characteristics after being processed, the process is still considered "work" if the process is a step in the manufacturing process.

7. For example, wooden frames under tariff item No. 4414.00.00 imported from Germany are exported from Canada to the Barbados to be painted. When they return to Canada, a mirror is installed in the frames and they are offered for sale. Even though the frames remain classified under tariff item No. 4414.00.00 and they will retain their essential characteristics, the painting of the frames is considered "work," i.e. the painting is a step in the production of an unfinished good into a finished good. Therefore, the frames do not qualify under tariff item 9992.00.00. In addition, because the frames are not a product of Canada, they do not qualify under the Canadian Goods Abroad Program and the frames are subject to full customs duty.

8. Generally where the importer is the end-user of the goods, processes applied to the goods while outside Canada that do not alter the essential characteristics of the goods are considered to be "alterations." For example, school buses exported by a school board to the United States to have seat belts installed are eligible under tariff item No. 9992.00.00 because the school board is altering a finished good. However, school buses exported by a school bus manufacturer to have seatbelts installed would not qualify for tariff item No. 9992.00.00 because the installation of the seatbelts in this case is a step in the production of an unfinished good into a finished good.

## Goods and services tax/harmonized sales tax (GST/HST) treatment

9. Goods returning to Canada that have been altered or worked on are subject to customs duties on the value of the good. The goods may be subject to GST/HST on the value of the processing work. Section 13 of the [Value of Imported Goods \(GST/HST\) Regulations](#) may apply to goods classified under tariff item Nos. 9992.00.00 or 9971.00.00, accounted for under the Canadian Goods Abroad Program, or classified in Chapters 1 to 97 of the [Customs Tariff](#).

10. Where the conditions of section 13 of the [Value of Imported Goods \(GST/HST\) Regulations](#) are met, GST/HST is only payable on the value of the processing. Generally, this treatment is conditional on the last importation of the good (i) not having been based on a reduced value; (ii) not having been made on a non-taxable basis; and (iii) not having given rise to an imported goods rebate for the tax on the importation.

11. The good must also not have been supplied prior to its re-importation without GST/HST having applied to that supply as a result of the supply being made outside Canada or being a zero-rated supply for export. Also, the recipient of that supply must not have been entitled to a non-resident rebate in respect of the supply. The application of tax on the reduced value applies where the goods are exported for processing including adjustment, alteration, assembly, maintenance, manufacture, production, modification, overhaul, packaging, repackaging, repair or testing of the goods.

12. For information regarding the application of GST/HST to a specific importation, please contact the Canada Revenue Agency at the number listed in paragraph 21 of this memorandum.

## Documentation

13. Where section 13 of the [Value of Imported Goods \(GST/HST\) Regulations](#) applies, there are four different scenarios. For all four scenarios, the goods are accounted for on Commercial Accounting Declaration (CAD). The [Tariff Item Nos. 9971.00.00 and 9992.00.00 Accounting Regulations](#), the Canadian Goods Abroad Program and section 13 of the [Value of Imported Goods \(GST/HST\) Regulations](#) also require the importer to present acceptable proof of export and an invoice containing a complete description and costs of the foreign processing.

14. **Scenario One:** Classified under tariff item Nos. 9992.00.00 or 9971.00.00 — Where the goods are entitled to the benefits of tariff item Nos. 9992.00.00 or 9971.00.00, the value for duty (VFD) reported on the CAD is the value of the processing. "9992" or "9971" must appear in the appropriate field to validate reporting the VFD in this manner. Failure to use one of these identifiers may result in the application of an Administrative

Monetary Penalty (AMP) for incorrectly valuing the goods. The GST/HST owing will be calculated on the value of the processing.

**15. Scenario Two:** Duty free when classified in Chapters 1 to 97 of the [Customs Tariff](#) — A two-line entry is required to correctly report the value for duty:

1<sup>st</sup> line: The first line reports the value of the goods according to the valuation provisions in the [Customs Act](#). GST/HST tax status code "66" is entered in the applicable field. The customs duties and GST/HST owing calculated against this line are "0."

2<sup>nd</sup> line: The second line reports the same classification number as the first line but the VFD in the applicable field is shown as the value of the processing. The customs duties owing will calculate as "0" and the GST/HST owing will be calculated at the applicable rate.

**16. Scenario Three:** Subject to customs duty, when classified in Chapters 1 to 97 of the [Customs Tariff](#), entitled to the provisions of the Canadian Goods Abroad Program — A two-line entry is required.

1<sup>st</sup> line: The VFD on the first line is the Canadian value of the good at time of export. The Canadian value of the good is calculated as the value of the good at the time of importation according to the valuation provisions in the [Customs Act](#), less the value of the processing work done outside of Canada. Special authorization code 98-04-0101 is entered in the applicable field. This code fully remits the customs duties and GST/HST owing against this line.

2<sup>nd</sup> line: The second line reports the same classification number but the VFD shown is the value of the processing. Customs duties and GST/HST are calculated and collected on this VFD.

**17. Scenario Four:** Subject to customs duty, when classified in Chapters 1 to 97 of the [Customs Tariff](#), not entitled to the provisions of the Canadian Goods Abroad Program — A two-line entry is required.

1<sup>st</sup> line: The first line shows the value for duty according to the valuation provisions in the [Customs Act](#). GST/HST tax status code "66" is entered in the applicable field. Customs duties are paid against this line.

2<sup>nd</sup> line: The second line reports the same classification number. The value for duty is the value of the processing **and** the customs duties owing as calculated by the first line. Special authorization code 90-0130 is entered in the applicable field. This code provides relief from the customs duties that would otherwise be calculated against this line. GST/HST is paid on the VFD.

18. For example, a sailboat classified under tariff item No. 8903.91.00 manufactured in Great Britain is imported into Canada without any hardware or a sail. It is sent from Canada to the United States to have brass hardware installed. The value of the processing (cost of the hardware, installation, transportation of the vessel to the factory

in the United States and insurance) is \$5,000. The vessel returns to Canada, the sail is installed and the vessel is offered for sale. The sailboat is not eligible for tariff item No. 9992.00.00 because the process that it underwent in the United States was not an alteration. Although the sailboat retains its essential characteristics, it was not a finished good when it was exported to the United States. The vessel would not qualify for the Canadian Goods Abroad Program because the sailboat is not a product of Canada. The CAD would be completed.

19. Where section 13 of the [Value of Imported Goods \(GST/HST\) Regulations](#) does not apply, the goods are documented on the CAD with a single line entry. The value for duty is reported according to the valuation provisions in the [Customs Act](#), even where the goods are entitled to the benefits of tariff item Nos. 9992.00.00 or 9971.00.00. In the latter case, "9992" or "9971" must appear in the appropriate field to reduce the customs duties owing to "0." The GST/HST is paid on the VFD.

## Drawback

20. In the case where goods have been worked on while outside Canada and do not qualify for the Canadian Goods Abroad Program, but duty and tax were previously applied, the importer/exporter can apply for a drawback of the customs duties paid when the goods were originally imported. In the previous examples, outlined in paragraphs 7 and 18, the importer may be eligible for a drawback of the customs duties paid on the wooden frames when they were imported into Canada from Germany, and on the sailboat when it was originally imported from Great Britain. For further information on drawbacks, refer to [Memorandum D7-4-2, Duty Drawback Program](#), and [Memorandum D7-4-3, CUSMA Requirements for Drawback and Duty Deferral](#).

## Additional Information

21. Any questions regarding the GST/HST should be directed to:

Manager, Goods Unit  
General Operations and Border Issues Division  
Excise and GST/HST Rulings Directorate  
Legislative Policy and Regulatory Affairs Branch  
Canada Revenue Agency  
Place de Ville, Tower "A," 16<sup>th</sup> floor  
320 Queen Street  
Ottawa ON K1A 0L5  
Facsimile: 613-990-1233

## References

Please consult the following resources.

## Applicable legislation

- [Customs Act](#)
- [Excise Tax Act](#)
- [Customs Tariff](#)
- [Tariff Item Nos. 9971.00.00 and 9992.00.00 Accounting Regulations Non-Taxable Imported Goods \(GST/HST\) Regulations Value of Imported Goods \(GST/HST\) Regulations](#)
- [Non-Taxable Imported Goods \(GST/HST\) Regulations \(justice.gc.ca\)](#)
- [Value of Imported Goods \(GST/HST\) Regulations \(justice.gc.ca\)](#)
- [The Canada-United States-Mexico Agreements \(CUSMA\)](#)

## Related D memoranda

[D7-4-2](#), [D7-4-3](#), [D8-2-1](#), [D8-2-25](#), [D8-2-26](#)

## Superseded Memorandum D

D8-2-11 dated March 31 2006

## Other references

CAD

## Related links

- [CARM: Assess and pay duties and taxes on imported commercial goods](#)
- [CARM Client Portal](#)
- [Canada-United States-Mexico-Agreement](#)
  - [Read the agreement and related texts](#)
  - [Chapter 2: National Treatment and Market Access for Goods](#)
- [The Administrative Monetary Penalty System](#)

## Contact us

For more information:

[Contact CBSA border information services](#)

For questions about the CBSA Assessment Revenue Management (CARM) system:

[CARM client support online form](#)