



Canada Trade Update 2026: Navigating New Customs, Transfer Pricing, and Sales Tax Challenges

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Speakers



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Agenda

1 Overview: Canadian customs

2 CBSA audit priorities

3 Interplay between transfer pricing, sales tax, and customs

4 Import GST/HST, incoterms, and Input Tax Credits (ITCs)

5 Updates: Free Trade and Foreign Investment Negotiations

6 Duty deferral, duty recovery, and duty drawback

7 Key takeaways

8 Questions?

Polling question 1

How
comfortable
are you
navigating
Canadian
customs?

A

Very: I have been in the trenches

B

Somewhat: I have dabbled in this area

C

Not very: I avoid customs like the plague

01 Overview: Canadian customs

Canada Border Services Agency (CBSA)

Canada Border Services Agency (CBSA) operates under a multifaceted mandate that combines:

- Border security enforcement
- Facilitation of commercial trade and international travel
- Regulatory compliance

Second only to the Canada Revenue Agency (CRA) in revenue collection in Canada

Key activities

- Collects duties and taxes from importers
- Conducts trade compliance verifications to ensure the accuracy of import declarations, through enforcement of Canadian customs laws and regulations

CBSA regulatory updates 2026

Importer of Record liability

AMPS penalty updates

Valuation amendments

CUSMSA/USMCA joint
review & verifications

Tariff Rate Quota (TRQ)

Surtax

02 CBSA audit priorities

CBSA audit priorities (January 2026)

The BIG three

Tariff Classification

Valuation

Origin

CBSA best practices

Working together with
your customs
broker/trusted advisor(s)

Regular internal
compliance reviews

Transfer Pricing
Adjustments -> adjusting
customs declarations

Voluntary Disclosure
Program

Review and update
internal controls and
SOPs

CBSA Service Standards for Trade and Commercial Appeals and Reviews

Providing the import/export community with a review of trade and commercial decisions made by the CBSA.

Processing times help you estimate how long, in workable time, it will take the CBSA to respond to your request.

The processing time is calculated using workable time only (from date the request is received to the decision date, minus non-workable time).

Tariff classification	369 working days
Origin	312 working days
Value for Duty	387 working days
Request for Extension of Time	56 working days
Special Import Measures Act appeals	436 working days

Last updated: Nov 12, 2025

CBSA Assessment and Revenue Management (CARM)

CARM went live on Oct 21, 2024 and the Canadian trade community has never been the same...

Purpose

- Modernize, simplify, and strengthen Canada's commercial import system

Benefit

- Improves how CBSA collects duties and taxes
- Real time access to import data into Canada
- Greater transparency
- Improved billing cycles
- Facilitates submitting declarations, managing payments, tracking the progress of ruling requests, and make updates to their account

03 Interplay between transfer pricing, sales tax, and customs

Interplay between transfer pricing, sales tax, and customs

- **“Transfer Pricing is not an exact science” – Supreme Court of Canada**
 - Method selection important to determine reasonable outcome (or reasonable range of outcomes)
- GST/HST applies to all supplies (even interco) and on imports
- Customs prefers things to be prescribed (for the most part)

Methods of Customs Valuation	Transfer Pricing Methods
Transaction value method Transaction value method of identical goods Transaction value method of similar goods	Comparable uncontrolled price method
Deductive value method	Resale price method
Computed value method	Cost plus method
Residual basis of appraisal method	Transactional net margin method / profit split method

Interplay between transfer pricing, sales tax, and customs

Does your Canadian entity need to pay your US entity as a result of a Transfer Pricing adjustment affecting goods imported into Canada?

- For tax and transfer pricing purposes, the transfer pricing adjustments result in a reduction of taxable income to the Canadian entity (i.e., higher price for the goods) and an increase in customs value
- An obligation to correct the value declared to CBSA is created when an upwards adjustment happens

What if our goods enter Canada Duty Free?

- An obligation to correct the value declared to CBSA is still created even in revenue neutral situations
- GST applies to the increase in value

Interplay between transfer pricing, sales tax, and customs

- Does your US entity need to pay your Canadian entity as a result of a Transfer Pricing Adjustment affecting goods imported into Canada?
- For tax and transfer pricing purposes, the transfer pricing adjustments result in an **increase** of taxable income to the Canadian entity (i.e., reduced price for the goods) and a **decrease** in customs value
- Downwards adjustments resulting in a refund are optional...and can be difficult to get approved

Trap!

- Ensure situation is not revenue neutral as adjustments to value in revenue neutral situations are not optional
- GST does not enter the equation when determining if an importer is in a refund position

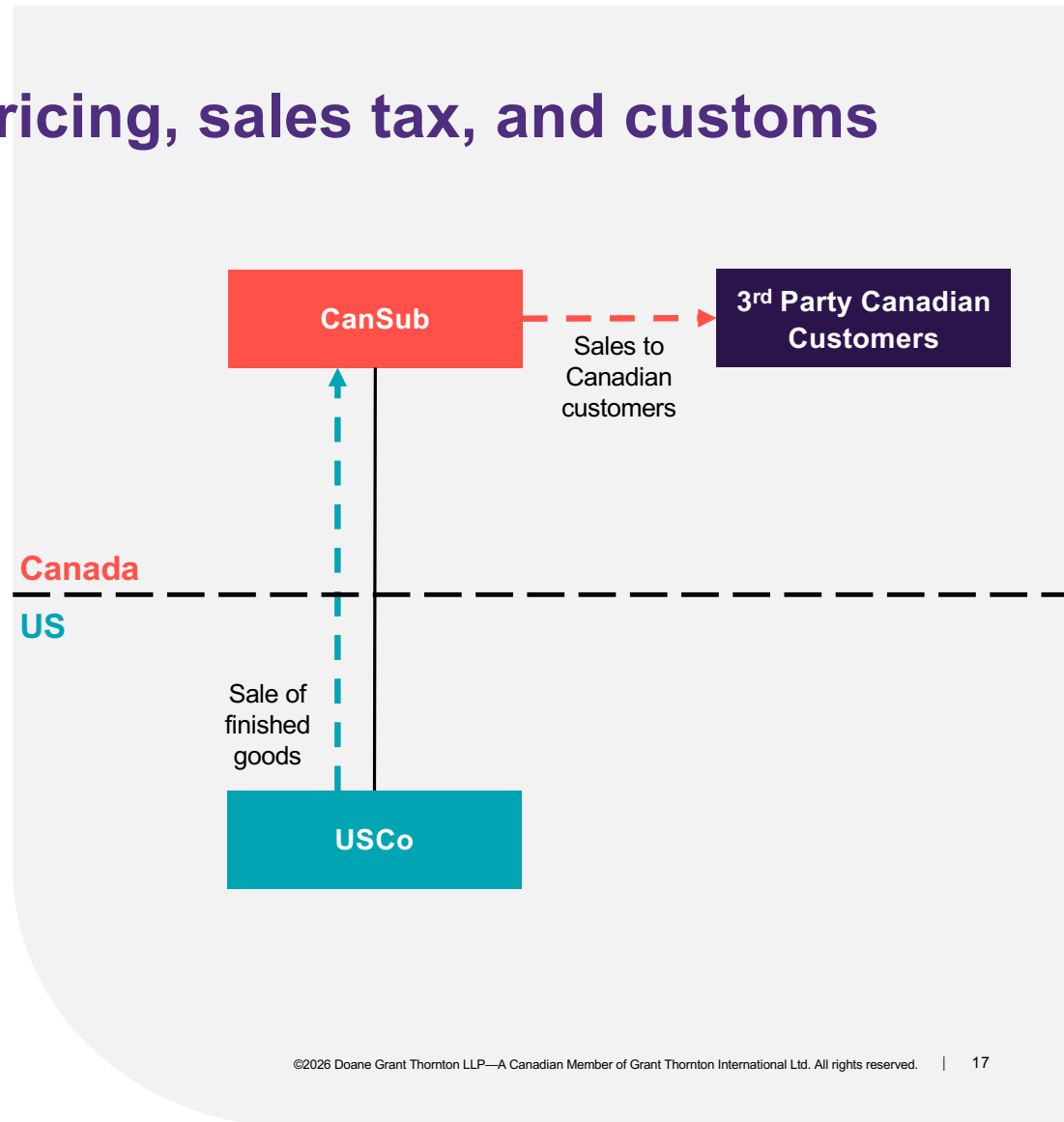
Tip!

- CBSA does not like to refund unless absolutely substantiated
- Tread carefully and ensure all records are impeccable when submitting a refund request in this realm

Interplay between transfer pricing, sales tax, and customs

Scenario 1 – Canadian distributor

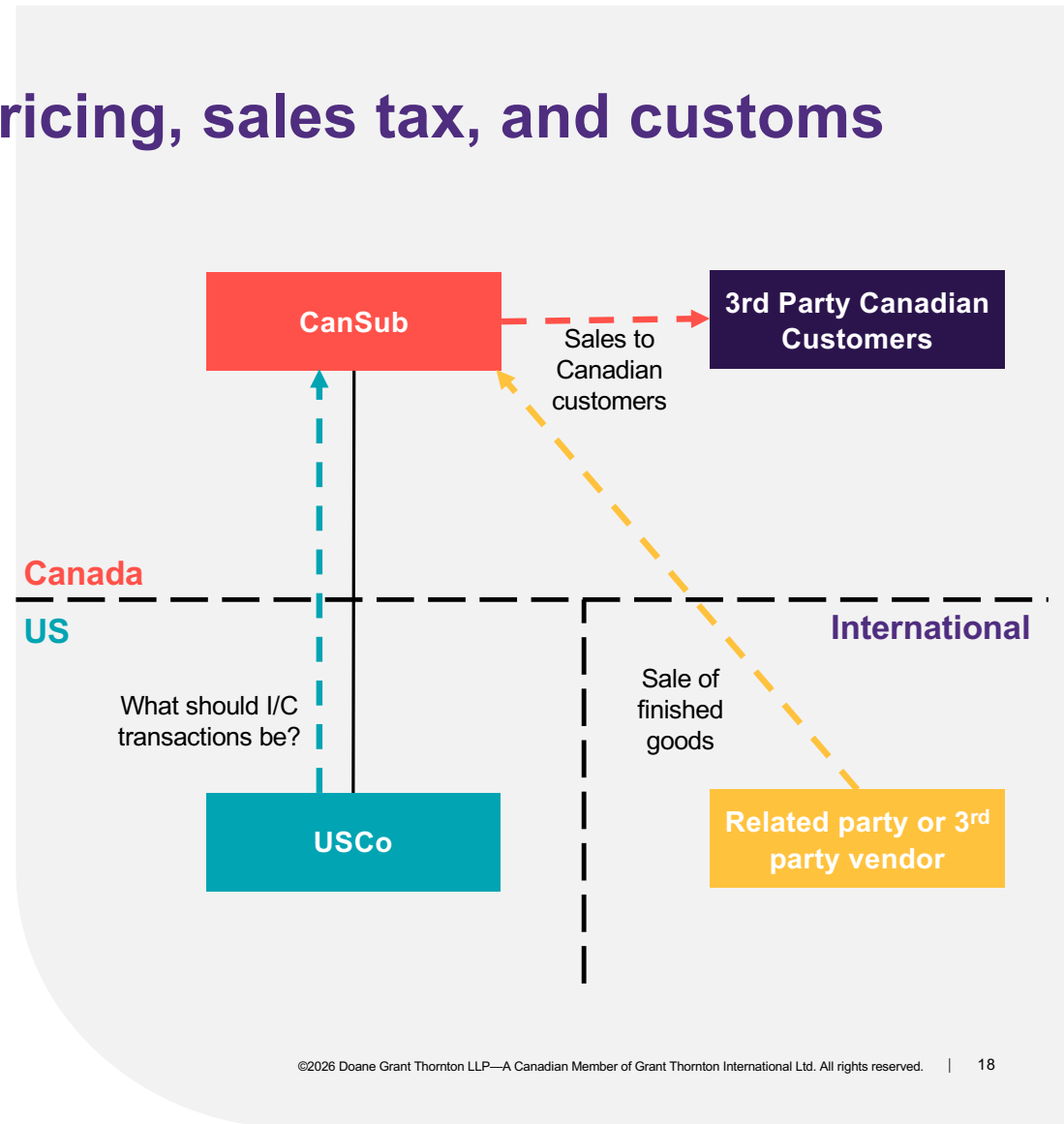
- USCo manufactures goods
- CanSub purchases goods from USCo for resale to third party Canadian customers
- Transfer pricing policy is set to target a routine distributor return
- Year-end adjustments are made to ensure target return is achieved
- Customs considerations?
- Sales tax considerations?
- Transfer pricing considerations?



Interplay between transfer pricing, sales tax, and customs

Scenario 2 – Canadian distributor

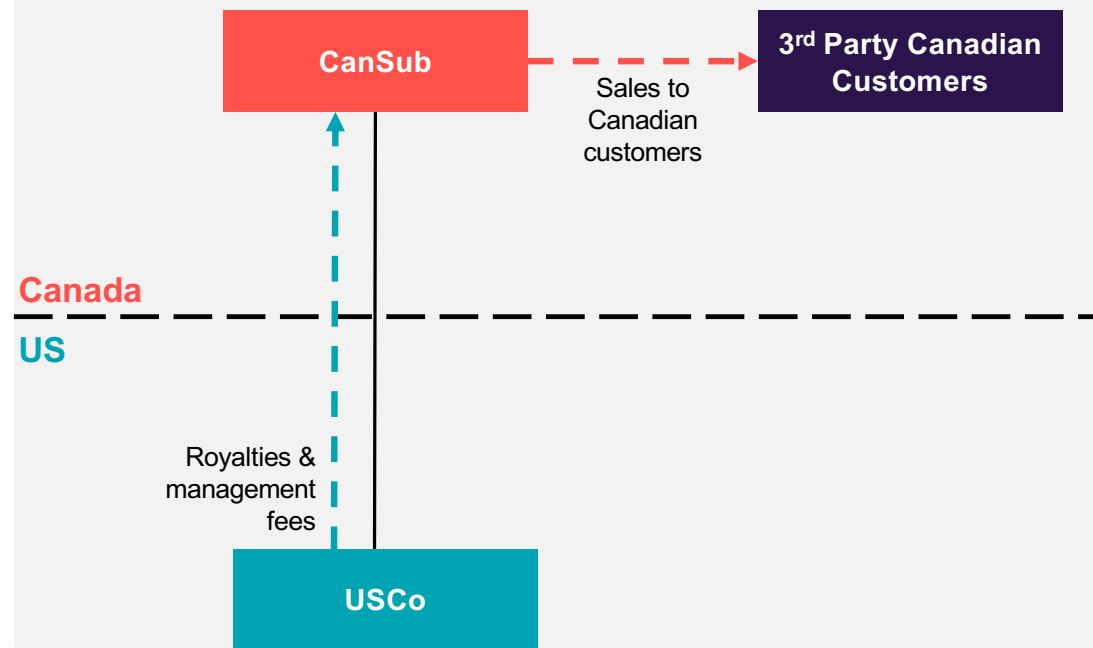
- USCo owns all product-related IP
- USCo engages a separate vendor (either related party or third party) to source or contract manufacture the goods
- CanSub purchases goods from vendor for resale to third party Canadian customers (at standard cost + 10% mark-up)
- CanSub realizes a 20% operating margin return from this arrangement
- What's missing?
- Differences in Scenario 1 vs. Scenario 2?



Interplay between transfer pricing, sales tax, and customs

Scenario 3 – Canadian licensed manufacturer

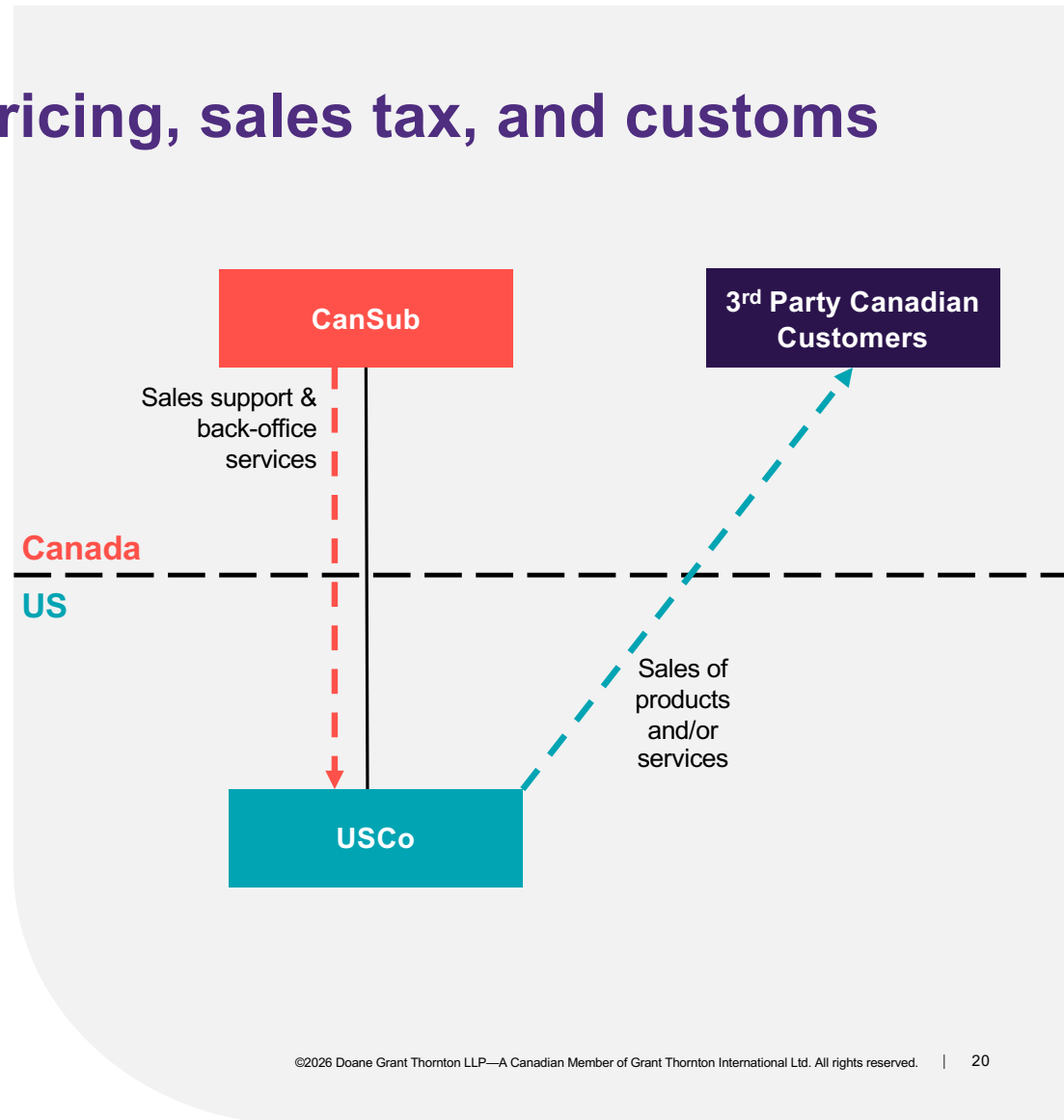
- USCo owns all product-related IP and undertakes all DEMPE-related activities
- CanSub pays USCo a royalty for the right to exploit the product-related IP and management fees for operational support
- CanSub manufactures the goods for sale to Canadian customers
- Customs considerations?
- Sales tax considerations?
- Transfer pricing considerations?



Interplay between transfer pricing, sales tax, and customs

Scenario 4 – Captive service provider

- USCo is the entrepreneurial client-facing entity and sells products to third party customers
- USCo establishes CanSub as a local sales support and back-office administrator
- Customs considerations?
- Sales tax considerations?
- Transfer pricing considerations?



04 Import GST/HST, incoterms, and Input Tax Credits (ITCs)

Div III GST/HST aka Import GST/HST

- Basis for GST on import (Div III)
- Calculated on the Value for Duty (VFD) plus the duty and other taxes (Value for Tax-VFT)
 - Example \$1000 CAD is the VFD, 8% duty rate, 5% Div III GST
 - $\$1000 \text{ (VFD)} + 8\% \text{ duty} = \$1080 \text{ (VFT)} \times 5\% \text{ GST} = \54
 - in this example the amount owing to CBSA is \$80 in duties and \$54 in GST
 - GST should generally be recoverable and not become a cost of doing business

- What could go wrong?
 - Classification (helps determine duty rate)
 - Origin (some country's goods could qualify for preferential tariff treatment in a valid free trade agreement)
 - Value declared
- GST calculation is based on the above; if your customs data is wonky, your tax calculation is wonky too
- If a zero-rating provision for GST applies, can indicate as such on customs entry

Overview: Incoterms

Types of Transport	Any Mode or Modes of Transport			Sea and Inland Waterway Only			Any Mode or Modes of Transport				
INCOTERMS 2020	EXW	FCA	FAS	FOB	CFR	CIF	CPT	CIP	DAP	DPU	DDP
Transfer of Risk	At Buyer's Disposal	On Buyer's Transport	Alongside Ship	On Board Vessel	On Board Vessel	On Board Vessel	At Carrier	At Carrier	At Named Place	At Named Place Unloaded	At Named Place
Responsibilities & Charges											
Export Packaging	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER
Loading Charges	BUYER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER
Delivery to Port/Place	BUYER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER
Export Duty, Taxes & Customs Clearance	BUYER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER
Origin Terminal Handling Charges	BUYER	BUYER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER
Loading on Carriage	BUYER	BUYER	BUYER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER
Freight Charges	BUYER	BUYER	BUYER	BUYER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER
Insurance	Negotiable	Negotiable	Negotiable	Negotiable	Negotiable	SELLER	Negotiable	SELLER	Negotiable	Negotiable	Negotiable
Destination Terminal Handling Charges	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	SELLER	SELLER	SELLER	SELLER	SELLER
Delivery to Destination	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	SELLER	SELLER	SELLER
Unloading at Destination	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	SELLER	BUYER
Import Duty, Taxes & Customs Clearance	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	SELLER

Basic requirements to claim an ITC

To recover GST incurred as an ITC, the claimant must:

- Be the person who acquires or imports the property or service
- Be the person liable to pay the GST
 - i.e., for taxable supplies made in Canada, the ITC claimant must have been the “recipient” of the supply
- Have been a GST registrant during the reporting period in which tax became payable and be, in fact, registered
- Have acquired the supply for consumption, use, or supply in the course of their commercial activities
- Have obtained sufficient evidence to support the ITC claim (ITC Documentation)



ITC issues on Imported Goods

- Challenges related to ITCs on imported goods
- Imported goods not tied to commercial activity of registrant
 - e.g., Goods owned by a related party or customer
- Uncertainty on legal delivery location
 - Confusion/inconsistent use of incoterms
 - Not operating in line with the agreed to incoterms
- Double taxation
 - GST collected at the border – under Division III
 - GST/HST collected by registered supplier – under Division II



Polling question 2

Who is
entitled to an
ITC?

- A** Importer of record
- B** Constructive importer
- C** De facto importer
- D** All of the above
- E** It depends

05 Updates: Free Trade and Foreign Investment Negotiations

Free Trade and Foreign Investment Negotiations

The Canadian government has 15 free trade agreements in force and is currently negotiating with various other countries for new Free Trade Agreements and Foreign Investment Promotion and Protection Agreements.



06 Duty deferral, duty recovery, and duty drawback

07 Key takeaways

Tips and tricks

Consider customs implications early in a project

Evaluate options available, programs available to leverage

Make friends with your trusted advisors and communicate often

Ensure clear terms and conditions, and clear incoterms in contracts and agreements

Consider Transfer Pricing and GST implications

Ensure capture of Import GST and GST charged on customs brokerage fees on GST/HST return

Ensure IOR is entitled to ITC's to not trap tax or consider options to recover

Call your trusted advisor(s) (Doane't forget to call us!)

Questions?

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