Canada Border Services Agency
Agence des services frontaliers du Canada

CARM TCP Working Group – RPP Financial Security Update

DRAFT FOR DISCUSSION

February 5, 2020

Canada

CARM | CBSA Assessment and Revenue Management

Context

The CBSA will adopt importer liability for the Release Prior to Payment (RPP) program

- The CBSA will be moving to importer liability for RPP as of CARM R2 go-live. The structural move to importer liability substantially increases the effectiveness of the RPP program
- The amount of RPP financial security an importer will be required to post will be based on highest historic monthly accounts receivable (e.g. duties and taxes, including GST) over a 12 month period
- The CARM solution will provide real-time monitoring and a paperless process for the posting of financial security, which will reduce the administrative burden for both CBSA and TCPs
  - Importers will have full transparency for their accounts and payables with CBSA, and will be able to post additional security if required
  - CBSA will be able to nudge importers at risk of surpassing security levels
- No legislated change is required to enable importer liability. The Agency has the discretion to prescribe the amount of RPP financial security required

Objective

Define an approach that provides reasonable RPP financial security coverage, while considering implications for TCPs

- The CBSA considered three key aspects in defining a revised approach to financial security for the RPP program
    1. The importer population has a distinct distribution with a very high percentage of importers representing a very low percentage of the total accounts receivable. What can be done to simplify requirements for smaller importers while providing security coverage for the CBSA?
    2. What level of security would allow the CBSA to balance its needs for security coverage while respecting the concerns expressed by the TCP community, particularly regarding the inclusion of GST?
    3. There is currently a $10M cap in place for the program. That will remain in the new model

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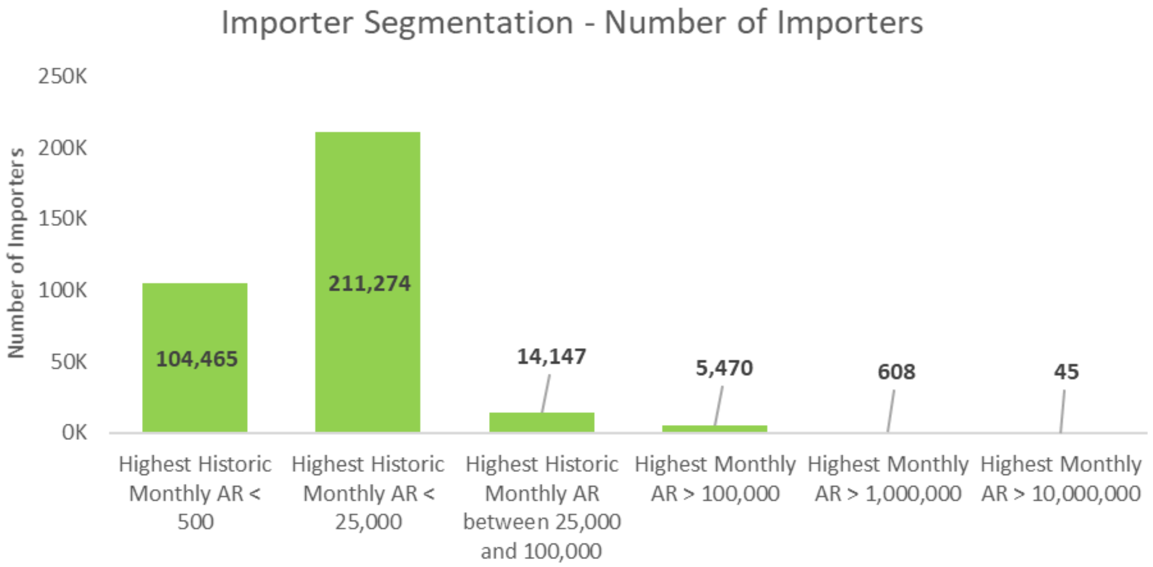
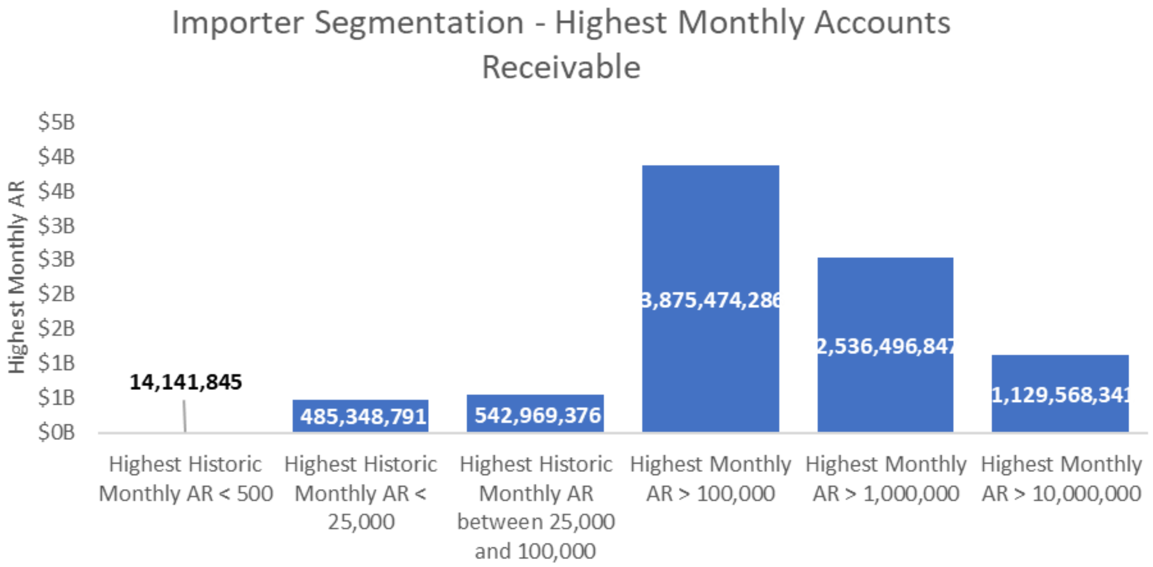
Importer Population

Over 90% of the population pays less than $25k per month in duties and taxes which represents less than 10% of the total duties and taxes paid to the Agency





- The future cost for a RPP bond is difficult to predict; however, existing CSCB data indicates the cost through their provider is ~$4.5 / $1,000 in security with a minimum premium of $350. Consultations with the surety association indicate that the minimum premium applies to bonds with a value of $25,000 or less
- The high percentage of relatively low value importers combined with the market dynamics for bonds suggests a floor of $25,000 in security could provide improved accounts receivable management to the CBSA without significant incremental cost for importers

New model: RPP security will be set at 50% of highest monthly AR

There will be a minimum floor of $25,000 and the current $10M cap will remain

- There will be a minimum bond of $25k
  - Smaller importers can post a cash bond in the amount of their highest AR. This can be done by making a payment through the CCP
  - This secures 211,000 smaller importers at 100% of their highest monthly AR with minimal financial implications to importers
- Larger importers will be required to secure 50% of their highest monthly AR
  - Applies a consistent percentage reduction to all importers
  - Offers a simple mechanism to reduce the financial impact to importers
  - Improves CBSA security coverage
- Maintains the existing cap of $10M
- Treats new and existing importers the same
- Offers a simple model with significant cost relief to importers, while still covering significantly more CBSA accounts receivable than the current state

Source: 2018 Calendar Year ARL Data

Global Perspective

	United Kingdom	United States	Canada
Who needs security?	All commercial importers who want to defer payment until after goods release (RPP).	All commercial importers of commodities above a value threshold (USD2,500), and/or subject to OGD regulation.	All importers who wish to participate in the RPP program.
Is there a minimum value-for-duty, below which security is not required?	No, for RPP. Yes, for goods held in bond, EUR1,000 (CAD1,500).	USD2,500 (CAD3,300)	No
How much security is required?	100% of <u>monthly</u> duties, taxes (VAT/GST), excise and fees.	10% of <u>annual</u> (120% of monthly) duties, taxes, fees, and penalties (no VAT) If a continuous bond is utilized, the minimum amount required is $50,000.	50% of highest <u>monthly</u> accounts receivable with a $25k minimum floor and $10M cap.
Can the level of GST/VAT coverage be reduced?	Yes, can be waived entirely if client has 3 years of history with revenue authority.	N/A (no VAT)	Yes, by 50%. The GST/VAT is included within accounts receivable.
Can the level of coverage be reduced?	Yes, security for RPP can be reduced by 30% for AEOC. Security for goods held in bond can be reduced to 50%, 30% or 0%, based on assessment of client.	No	Yes, by 50%
Document management	All documents are stored electronically, including bond certificates.	All documents and data are stored electronically.	All documents and data are stored electronically.
Types of bonds	Two types (individual and customs comprehensive).	Two types (single transaction and continuous bonds).	Two types (single transaction and continuous bonds).
eBonds	No	Yes	Yes

Additional questions?

Thank you!