

NON-RESIDENT IMPORTER:

Improved Canadian Market Access for U.S. Businesses



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Introduction

Let's say you're a Canadian consumer and you are doing an online price comparison for a portable blow-dryer. Included in your analysis are both Canadian and U.S. retailers, and you soon realize that the lowest price is offered by one of the U.S. retailers. You think you've done your due diligence and found the best price, right?

Actually, not so fast. As tempting as it might be to lock in the lowest price, a Canadian consumer will soon learn that purchasing from a U.S. retailer involves many unforeseen layers. For one thing, a U.S. business may not be able to include all customs and brokerage fees at time of purchase. Those fees will come later, after the consumer believes the transaction has been finalized. And a U.S. business will not be able to say with certainty when the blow-dryer will be delivered since the shipment faces possible delays in clearing the U.S./Canadian customs process.

Suddenly the good deal from the U.S. retailer doesn't look so good, does it?

Unless.... unless that particular U.S. retailer has established itself as a Non-Resident Importer (NRI)

under a program available through the [Canada Border Services Agency](#) (CBSA). As a non-resident importer, a U.S. business is allowed to act as an "importer of record," which in effect allows the business to act much the same as a Canadian business – free from many customs-based uncertainties and requirements.

NRI status offers many positives for a U.S. business operating in Canada:

- Ability to factor in all duties, taxes, and brokerage fees at time of purchase
- Greater control over delivery times
- Ability to compete on a level playing field with Canadian businesses
- Potential for reduced supply chain expenses
- Enhanced customer satisfaction

Businesses can apply for NRI status through a process administered by the CBSA. Because the process can be tricky, and requires a fair amount of paperwork and documentation, many U.S. businesses enlist the services of a qualified customs broker or logistics provider to complete the process on their behalf. But because a business is liable as the official "importer of record," it is important for managers to have an understanding

of the NRI process and responsibilities, especially with regard to recordkeeping and compliance. In fact, CBSA has reportedly increased scrutiny of NRIs, with the [Canadian Bar Association](#) noting a growing number of audits among NRI filers.

The following discussion will provide an overview of the Non-Resident Importer process, including its benefits for U.S. businesses, as well as an overview of the necessary requirements. The discussion will also highlight the importance of a qualified customs broker or logistics provider, both in managing the NRI application process and in ensuring your business takes advantage of other opportunities available to U.S. businesses operating in the Canadian market.

What is a Non-Resident Importer?

According to [Livingston International](#) customs brokers, “A Non-Resident Importer is a business located outside of Canada that ships goods to customers in Canada and assumes responsibility for customs clearance and other import-related requirements.” This distinction allows a U.S. business to operate in Canada, much the same as a Canadian business, and levels the playing field to compete in the Canadian market. NRIs are able to charge their Canadian customers an all-included landed price at time of purchase. NRIs can also provide a streamlined customs clearance process and better manage paperwork and compliance.

In addition, U.S. businesses can operate in Canada without having to maintain physical assets, including warehouses, distribution centers, or brick-and-mortar stores. Thus the benefits of NRI status can help a business manage supply chain costs in addition to the more obvious competitive and customer service benefits.

Integral to the NRI process is the Canadian government's willingness to allow U.S. businesses to act as “importers

of record” for purposes of Canadian customs compliance.

According to [Crane Worldwide Trade Services](#), an importer of record is the entity responsible for the importation of goods into a country and “responsible for the payment of duties, fees, fines, or penalties issued by customs or other government agencies.” An importer of record is also responsible for

maintaining all records and paperwork for the duration of a CBSA-mandated time period.

Businesses seeking NRI status usually enlist the services of a qualified customs broker or logistics provider who will manage the application/qualification process on their behalf and ensure that all recordkeeping and compliance mandates are satisfied. But it is essential to take care to partner with a third party who truly has the necessary experience. Customs compliance can be an exceedingly

complicated process, and failure to properly complete paperwork could result in denial of benefits, shipment delays, and even fines.

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Source: Livingston International Customs Brokers

Why Become an NRI?

NRI status can have tremendous benefits for U.S. businesses operating in Canada. Among the key advantages are the following.

Ability to Charge Customers a Landed Cost at Time of Purchase

Few things *anger* Canadian consumers more than packages that arrive from the U.S. accompanied by unexpected invoices for brokerage fee charges, duties, taxes, and other hidden fees. In some instances, the amount of the unexpected invoice can be more than double the amount of shipping charges already paid. “Charges for goods shipped to Canada can include taxes, duty, brokerage fees, disbursement (fees for prepaying duty and taxes), and conversion fees (currency exchange rate fee charged by credit card companies),” said Zia Daniel Wigder, senior analyst with [Forrester Research](#). “These fees can add up and almost double the price of lower-cost items,” she added.

While there can be many reasons for the additional fees, a major reason is that U.S. businesses are not able to collect sales tax and import fees from their Canadian customers. But once a business has attained NRI status, and is thus able to act as an importer of record, it may collect these fees at time of purchase.

NRI Status “Levels the Playing Field” for U.S. Businesses in Canada

NRI status allows a U.S. business to conduct transactions with Canadian customers in a way that mirrors domestic transactions. NRIs are able to act like Canadian businesses, which means greater control over the process and greater ability to meet Canadian consumers’ needs.

Reduced Supply Chain Expenses

NRI status offers the tremendous benefit of not having to maintain a physical presence in Canada—no requirements with regard to Canada – based warehouses, distribution centers, stores, or any other physical assets. Instead, a U.S. business may build a supply chain that best fits its business model, and allows it to satisfy its customers’ expectations, without being mandated to locate physical assets in Canada. In addition, NRI shipments are eligible for consolidation, which means smaller shipments may be combined into one larger shipment for a more efficient border clearance process and less-costly transportation service.

Top Benefits of NRI Status

- Charge customers an all-included landed price at time of purchase
- Compete on a level playing field with Canadian businesses
- Reduce supply chain costs
- Better oversight of customs process
- Improve satisfaction among Canadian customers

Better Management of Customs Process

By acting as the importer of record, an NRI assumes complete control for a Canada-bound shipment. This in turns gives the NRI insight into a shipment's border clearance process.

An NRI can [ensure](#) that a shipment is given the proper tariff classification, takes advantage of all applicable free trade agreements, and is entirely compliant with CBSA mandates.

Improved Satisfaction for Canadian Customers

NRIs are able to finalize transactions without having to involve their Canadian consumers with any additional customs-related paperwork or follow-up. Once a transaction is finalized, a Canadian consumer is not involved in the steps a U.S. business must take to provide an on-time delivery.

NRIs are well positioned to meet those delivery guarantees, thereby enhancing their reputations and competitiveness within the Canadian market.

Becoming a Non-Resident Importer – The Process

The NRI application process is fairly straightforward, as long as a business understands the process! As with most issues related to customs compliance, the process is always smoother when a qualified expert is available to advise and manage. The NRI process is no different. A customs broker or logistics provider with complete understanding of CBSA procedures, and who keeps apprised of frequent – and frequently unannounced – changes to CBSA procedures, can help ensure a smooth, uncomplicated registration process.

After a business selects a qualified customs expert to act on its behalf, the following steps are required:

1. Obtain a Business Number (BN) from the Canada Revenue Agency (CRA)

Businesses operating in Canada must obtain a Business Number, which serves as a unique identifier for purposes of tax liabilities and payments. A business may not import into Canada without a BN. The BN is unique to each business and must be included on all customs documentation and in all communications with the CRA. According to the CRA, the BN has 15 characters: nine numbers to identify the business plus two letters and four numbers to identify the program and each account.

How a Business Number Works

The BN is a unique nine-digit number assigned by the CRA to identify a specific business. These nine digits form the root of the 15-character account numbers that are also assigned by the CRA or by participating BN programs. The account number is used to identify the programs and specific program accounts used by a business.

An account number has three parts:

- The nine digit BN to identify the business
- A two-letter program identifier used to identify the program type
- A four-digit reference number to identify each account a business may have within a program type

For example:

Business Number (1)	Program Identifier (2)	Reference Number (3)
1 2 3 4 5 6 7 8 9	R P	0 0 0 2

- (1) The first nine digits represent your BN. The BN is unique to your business. You will use this number when registering for all program accounts and when communicating with the CRA about your business. The same BN will be included in all your account numbers no matter how many or what types you have.
- (2) The two letters identify the type of program account; in this case, a payroll account.
- (3) The last four digits are the reference number for a specific program account.

Source: [Canada Revenue Agency](#)

2. Register for a GST/HST Registration Number

Businesses with sales that exceed \$30,000 CAD must also apply for a General Sales Tax (GST)/Harmonized Sales Tax (HST) registration number. The GST/HST registration number can be requested via Parts A5 and B of Form RC1-Request for a Business Number.

The GST is the federal five percent sales tax that is assessed on taxable goods and services. The HST consists of the five percent GST plus an additional provincial tax. The HST is collected by the CRA, with the provincial portion forwarded to the province. Not every province collects the HST. Some choose to collect a Provincial Sales Tax (PST) at the local level while other provinces impose no local sales tax at all.

3. Register for an Import/Export Account

Any business importing goods into Canada must register for an Import/Export account, which will be used to process customs documents. The Import/Export Account can be requested via Part D of [Form RC1, Request for a Business Number](#) (BN).

Many businesses designate the BN registration process to their customs broker or logistics broker to complete on their behalf. But a business that opts to complete the process may do so [online](#), by completing and returning by mail CRA [Form RC1-Request for a Business Number](#), or by telephone.

Responsibilities of a Non-Resident Importer

Once a business receives its Business Number, it is ready to assume the role of “importer of record” and begin to reap the benefits of being a Non-Resident Importer. But with that status comes responsibilities.

According to [Livingston International](#) customs brokers, “an NRI is subject to Canada’s Customs Act and related regulations, which are administered by the Canada Border Services Agency.” Among an NRI’s responsibilities:

Collect and Pay Taxes

An NRI is responsible for collecting sales taxes from its Canadian customers and forwarding those taxes to the Canada Revenue Agency. In Canada, sales taxes are collected at the federal and provincial levels of government, and a business must be careful to comply with all applicable levies. Please note that sales taxes are different from import duties. Import duties on goods between the U.S. and Canada were virtually eliminated via NAFTA.

- A federal Goods and Services Tax (GST) of five percent of value is assessed on just about all goods entering the country.
- Provincial sales tax are levied at the province level and are collected locally.
- The provinces of Nova Scotia, New Brunswick, Prince Edward Island, Newfoundland and Labrador, and Ontario have opted to “harmonize” their

Provincial Sales Tax with the General Sales Tax.

This combined rate is called the “harmonized tax” and represents the sum of the five percent federal GST plus the appropriate provincial tax.

Following is an [overview](#) of the tax structure in each province and territory:

Province	GST	PST	HST
Alberta	5%	0	NA
British Columbia	5%	7%	NA
Manitoba	5%	7%	NA
New Brunswick	5%	NA	13%
Newfoundland and Labrador	5%	NA	13%
Northwest Territories	5%	NA	NA
Nova Scotia	5%	NA	15%
Nunavut	5%		
Ontario	5%	NA	13%
Prince Edward Island	5%	9%	14%
Quebec	5%	9.975% (QST)	NA
Saskatchewan	5%	5%	NA
Yukon	5%	0	NA

Determine Valuation

Determining a shipment's proper value is very important because duty will be assessed based on that number. However, determining value can be complicated. Parameters for determining valuation are contained in Canada's [Customs Act](#), and [CBSA](#) outlines six different methods for determining valuation. Canada's valuation processes are based on the World Trade Organization's Valuation Agreement, also known as the Customs Valuation code. According to CBSA, "this code establishes a fair, uniform, and neutral system for valuing goods in accordance with commercial reality and prohibits the use of arbitrary or fictitious customs values. Its goal is to ensure that the customs value of all goods entering all countries is established using the same rules and that the valuation of goods is not a barrier to trade."

In general, value is determined by a transaction value method of assessment, which is based on the price paid for imported goods with consideration granted for certain adjustments, including storage expenses, duties and taxes, and warranty payments.

If valuation cannot be determined using the transaction value method, one of five alternatives must be used: transaction value of identical goods; transaction value of similar goods; deductive value; computed value; or residual method.

Also important to note is that CBSA requires detailed recordkeeping for all value declarations.

Delivered Price

An NRI will charge a selling price that includes duty, tax, brokerage, and freight costs. A statement of these charges must appear on customs documentation so that duty and tax are paid on the correct value.

Tariff Classification

NRIs have the responsibility for ensuring that every product entering Canada bears the proper tariff classification code. The identifying codes are found in the [Harmonized Commodity Description and Coding System](#), which is maintained by the Department of Finance Canada. The Harmonized System includes thousands of different product classifications, and code assignments can vary based on slight product variations. A misclassified shipment runs the risk of missing out on trade benefits to which it is legally entitled or of overpaying duties. Misclassification could also result in fines and legal repercussions. This underscores the need to carefully consider all possibilities with regard to tariff classification.

NAFTA Compliance

The North American Free Trade Agreement (NAFTA) eliminates virtually all tariffs on domestically produced goods traveling between the United States, Canada, and Mexico. But determining if a product qualifies under NAFTA's specific rules for "domestic content" can be a complicated process. An NRI must complete a required "NAFTA Certificate of Origin"

NRI Responsibilities

With NRI status comes several key customs-related responsibilities including:

- Collecting Canadian sales taxes and forwarding to CRA
- Determining proper valuation
- Assigning correction tariff classification
- Submitting proper paperwork for shipments eligible for NAFTA and other free trade agreement benefits
- Recordkeeping and compliance

to accompany any shipment purported to be eligible for NAFTA benefits. The Certificate of Origin requires detailed information about the component parts of any NAFTA-eligible product.

Recordkeeping

Canadian law requires retention of all commercial records and documentation for six years. Records that must be maintained include all invoices, NAFTA Certificates of Origin, import permits, bills of lading, accounting documents, tariff classification rulings, valuation documentation, and the list goes on. An NRI with no physical presence in Canada may request permission to maintain records outside of Canada. Applying for this permission will save the expense of having to keep the documentation in Canada.

Compliance

CBSA maintains very strict standards for compliance and shows little tolerance for businesses that fail to comply with its security and border clearance processes. A non-resident importer must take extraordinary steps to ensure full compliance. A 2013 report by [Ernst & Young](#) accounting firm reported a sharp increase in the number of audits by CBSA. And the accounting firm noted that under Canada's Administrative Monetary Penalty System (AMPS), importers are liable for failure to comply with all customs obligations.

Conclusion

According to the [U.S. Department of Commerce](#), less than one percent of U.S. businesses are currently engaged in export activities, and of those companies that do export, 58 percent export to a single country, mostly to Canada and Mexico. When businesses were [asked](#) why they don't export, many expressed doubts that exporting would be profitable for them or said they simply didn't know enough about the process.

This is exactly the purpose of Canada's Non-Resident Importer (NRI) program. By allowing U.S. businesses to act as importers, U.S. businesses are able to compete for valuable Canadian consumers without the uncertainty of the customs process, and they are able to offer more competitive service and pricing. NRI status is a “secret weapon” of sorts for U.S. businesses entering the Canadian market.

But like most secret weapons, the devil is often in the details. Applying to be an NRI, and fulfilling the accompanying responsibilities, can be a confusing and complicated process. But with the right customs broker or logistics partner on its team, a business can enjoy the benefits of being a non-resident importer while its customs expert handles the necessary paperwork and filing procedures.

Purolator. We deliver Canada.

Purolator is the best-kept secret among leading U.S. companies who need reliable, efficient, and cost-effective shipping to Canada. We deliver unsurpassed Canadian expertise because of our Canadian roots, U.S. reach, and exclusive focus on cross-border shipping.

Every day, Purolator delivers more than 1,000,000 packages. With the largest dedicated air fleet and ground network, including hybrid vehicles, and more guaranteed delivery points in Canada than anyone else, we are part of the fifth largest postal organization in the world.

But size alone doesn't make Purolator different. We also understand that the needs of no two customers are the same. We can design the right mix of proprietary services that will make your shipments to Canada hassle free at every point in the supply chain.

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