

Collection of Duty and Taxes at Canada/US Border

Cross-border shopping by Canadians in the United States was an estimated \$4.7 billion in 2006. Since then, annual increases have taken the total to \$8.0 billion in 2012, 72% higher than 2006.¹ The impact on Canadian retailers, particularly in border towns, is costing the economy billions of dollars which could be minimized if duties were enforced at the border.

Approximately three-quarters of Canadians live within 160 kilometres of the Canada-US border. Therefore, many consumers use their relatively easy access to the United States as a shopping option. According to Statistics Canada, cross-border shopping has increased by 53% over the past 10 years. A study conducted by the Business Council of BC indicated same-day trips to the U.S. increased by more than 143 percent in BC between 2009 and 2012. Under the laws, there are no personal exemptions permitted for same day cross border shoppers. Assuming 95% of day-trippers return with a full tank of gas, at an average of \$70, and \$80 worth of goods, there is a significant impact on B.C.'s economy due to lost profits and tax collections (GST, PST, gas taxes, etc.).

The federal government has clearly acknowledged that day trips should not be exempted from taxes, as stated by Jim Flaherty "Our government has no plans to create an exemption for day trips under 24 hours as it would disadvantage retailers in border communities and elsewhere in Canada," but Border Services Officers continue to routinely waive taxes and duties on goods bought by travellers in the U.S. According to a briefing note for the Prime Minister prepared in June 2014, the border agency waives taxes when the value is below a certain threshold.² The threshold was established by considering the cost for CBSA to process a traveller through the collection process, but the threshold is not publicly available. Collections may also be waived where the volume in collections results in unacceptable border processing delays, as determined by local management. If the reduction in border processing times is an overriding priority for Canadian business, there also needs to be consideration for the significant impact these exemptions have on the local economy.

A key barrier to consistent collection of duties and taxes are the conflicting responsibilities of the border personnel. The border personnel are managing revenue collection, service to the public (wait times), interdiction of inadmissible persons and goods, and the facilitation of legitimate trade and travel. Local management have the authority to adjust priorities and have several options available to them in order to meet these objectives, including opening more lanes, planning shift schedules, scheduling overtime, etc., but many of these options require increased resources and costs.

The priorities of personnel include the security and safety of our nation, therefore collection of duties and taxes are by default a lower priority.

A consistent pattern of non-collection of taxes and duties at the Canada/US Border creates a further incentive for residents to choose cross border shopping. This puts Canadian Retailers at an unfair disadvantage and results in a significant economic loss to border communities.

Recommendations

That the federal government:

1. Examine current policies and protocols to identify efficiencies or additional resource commitments that would enable the consistent collection of prescribed duties and taxes with no effect on the free flow of commercial traffic.
2. Research implementation of a self-reporting model (similar to Nexus) whereby the reporting onus will be placed on the individual, and Border Personnel will continue to be responsible for performing random checks.

¹ Stats Canada Study: Cross-border Shopping 2004-2012

² According to the briefing note obtained by the Canadian Press under the Freedom To Information Act

3. Increase penalties and restrictions whereby non-compliant residents will incur penalties that are sufficiently onerous to deter abuse of the process and offset costs of enforcement, and where abusers of a self-reporting model would become ineligible.