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# Tax Alert – Canada

## Canada repeals the *CCRFTA Non-entitlement to Preference Regulations*

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

On 21 August 2019, the Government of Canada published SOR/2019-290, an *Order Amending the Schedule to the Customs Tariff (Costa Rica)* in Part II of the Canada Gazette.

Effective 8 August 2019, Canada is extending entitlement of the *Canada-Costa Rica Free Trade Agreement (CCRFTA)* preferential tariff treatment to certain goods that originate under the CCRFTA but were excluded from CCRFTA preferential tariff treatment prior to 8 August 2019.<sup>1</sup>

### Background

The CCRFTA came into force on 1 November 2002. Under the *CCRFTA Non-entitlement to Preference Regulations (the Regulations)*, enacted on 31 October 2002 pursuant to the *Customs Tariff*, certain goods that undergo operations in a Costa Rica Free Trade Zone (FTZ) are deemed not to originate in Costa Rica and are not entitled to preferential tariff treatment under the Costa Rica Tariff rate.<sup>2</sup> This restriction stems from the nature of the tariff elimination obligations agreed to under the CCRFTA. Canada's obligation to eliminate tariffs on certain goods was contingent on Costa Rica removing all business tax exemptions and other export subsidies for goods produced wholly or partially in Costa Rican FTZs.<sup>3</sup>

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<sup>1</sup> SOR/2019-290

<sup>2</sup> SOR/2002-398

<sup>3</sup> Explanatory note to SOR/2019-290

## Impact

As the Government of Canada is now satisfied that Costa Rica has eliminated business tax exemptions and other export subsidies, the *Regulations* have been repealed and originating goods previously exempt can now benefit from preferential tariff treatment. These goods were listed in categories A1, B, C and D of Canada's tariff elimination schedule under the CCRFTA and include apparel, textiles and tire products. These goods can now be imported duty free into Canada. The Government of Canada expects to forgo approximately CAD 2.7 million in customs duties due to the repeal of the *Regulations*.<sup>4</sup> As the affected goods were originally subject to moderate or high duty rates, Canadian importers sourcing the affected goods will see a notable reduction in customs duty costs for these goods.

Costa Rica is Canada's largest trading partner in Central America.<sup>5</sup> In 2018, Canada exported approximately CAD 164 million worth of goods to Costa Rica and imported approximately CAD 519 million worth of Costa Rican goods.<sup>6</sup>

## Learn more

For more information, please contact one of the following EY Global Trade professionals:

### **Toronto**

#### **Sylvain Golsse**

Canadian Leader, Global Trade  
+1 416 932 5165 | [sylvain.golsse@ca.ey.com](mailto:sylvain.golsse@ca.ey.com)

#### **Krystal Hicks**

+1 416 943 2518 | [krystal.hicks@ca.ey.com](mailto:krystal.hicks@ca.ey.com)

### **Quebec and Atlantic Canada**

#### **Michael Zobin**

+1 514 879 2711 | [michael.zobin@ca.ey.com](mailto:michael.zobin@ca.ey.com)

#### **Mike Cristea**

+1 506 443 8408 | [mihai.cristea@ca.ey.com](mailto:mihai.cristea@ca.ey.com)

### **Calgary**

#### **Shannon Baxter**

+1 403 956 5703 | [shannon.baxter@ca.ey.com](mailto:shannon.baxter@ca.ey.com)

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<sup>4</sup> Explanatory note to SOR/2019-290

<sup>5</sup> Government of Canada,

[https://www.canadainternational.gc.ca/costa\\_rica/bilateral\\_relations\\_bilaterales/canada\\_costa\\_rica.aspx?lang=eng](https://www.canadainternational.gc.ca/costa_rica/bilateral_relations_bilaterales/canada_costa_rica.aspx?lang=eng)

<sup>6</sup> Statistics Canada, Canadian International Merchandise Trade Database

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