

# **General Information for GST/HST Registrants**

Visually impaired persons can get our publications in braille, large print, or etext (computer diskette), or on audio cassette by visiting our Web site at **[www.ccra.gc.ca/alternate](http://www.ccra.gc.ca/alternate)** or by calling **1-800-267-1267** weekdays from 8:15 a.m. to 5:00 p.m. (Eastern Time).

This guide uses plain language to explain the most common tax situations. If you need more help after you read this guide, call our Business Enquiries line at **1-800-959-5525**.

La version française de cette publication est intitulée *Renseignements généraux sur la TPS/TVH pour les inscrits*.

## Before you start

### Is this guide for you?

If you own and operate a business in Canada, you need to know about the goods and services tax (GST) and the harmonized sales tax (HST). This guide provides general information such as how to collect, record, calculate, and remit GST/HST. It also includes line-by-line instructions to help you complete your GST/HST return.

This guide does not provide detailed information that may apply to non-residents and certain businesses such as financial institutions, tour operators, builders, and land developers. It does not cover the special rules, exemptions, and rebates that apply to public service bodies. We have other guides, pamphlets, and bulletins that provide information to specific businesses and organizations. For instance:

- If you are a municipality, see the guide called *GST/HST Information for Municipalities*.
- If you are a non-profit organization, see the guide called *GST/HST Information for Non-Profit Organizations*.
- If you are a charity, see the guide called *GST/HST Information for Charities*.
- If you are a selected listed financial institution, see the guide called *GST/HST Information for Selected Listed Financial Institutions*.
- If you are a public service body, see the guide called *GST/HST Public Service Bodies' Rebate*.
- If you are a non-resident, see the guide called *Doing Business in Canada – GST/HST Information for Non-Residents*.
- If you are a taxi or limousine operator, see the pamphlet called *Basic GST/HST Information for Taxi and Limousine Operators*.
- If you are involved in building real property, see the guides called *GST/HST New Housing Rebate*, *GST/HST Information for the Construction Industry*, and *GST/HST New Residential Rental Property Rebate*.

For a complete list of guides and pamphlets, see Appendix 1 at the end of this guide.

### How to contact us

If you need more information about GST/HST, call us at **1-800-959-5525**.

### Representatives

You can authorize a representative, such as your accountant, to get information about your GST/HST matters. However, we will give information to your representative only after we are satisfied that you have authorized us in writing to do so.

To authorize a representative, complete and send us Form RC59, *Business Consent Form*, clearly indicating that you are authorizing the representative to contact us regarding your GST/HST account.

### Forms and publications

Throughout this guide, you will find references to other publications and forms. We have provided a list of these in Appendix 1 and Appendix 2. Many of our forms and publications are available on our Web site. If you want to obtain copies of publications and forms, call us at **1-800-959-2221**.

### Internet

Many of our publications are available on the Internet at **www.cra.gc.ca**. You may want to bookmark this address for easier access to our Web site in the future.

### GST/HST and Quebec

In Quebec, the ministère du Revenu du Québec (MRQ) administers GST/HST. If you have business operations in Quebec, you can contact the MRQ, toll free, at **1-800-567-4692**. Also, see the MRQ publication called *General Information concerning the QST and the GST/HST – Guide for Registrants*.

### Small business seminars

To help you comply with GST/HST, we offer a GST/HST new registrant workshop, and GST/HST seminars. These cover topics such as who has to register, what is taxable, exempt, and zero-rated, how to collect and remit GST/HST, and how to file your GST/HST returns. Call us for more information on these workshops and seminars. If you are in Quebec, contact an MRQ office.

### GST/HST News

As a GST/HST registrant, you may want to review the quarterly issues of the *GST/HST News*, which will discuss different issues that concern a variety of GST/HST registrants. These can be found on our Web site.

### Proposed changes

This guide includes proposed changes to GST/HST legislation and regulations. Although these changes were not law at printing time, we are getting ready to apply them.

### Problem Resolution Program

Our Enquiries staff is committed to resolving your tax-related problems by giving you accurate, timely, courteous, fair, and confidential answers to your questions. However, if a problem cannot be resolved, you can contact the Problem Resolution Program of your tax services office.

Our goal under this program is to resolve the problem within 15 working days. If we cannot do so (such as if your case is complex), a representative will contact you to confirm that we are working on the problem, to discuss it further (if necessary), and let you know when we expect to resolve it.

## Teletypewriter users

If you have a hearing or speech impairment and use a teletypewriter, you can call our toll-free bilingual enquiry service at **1-800-665-0354** during regular business hours.

## GST/HST electronic filing and remitting

Eligible GST/HST returns can be filed electronically using GST/HST TELEFILE or GST/HST NETFILE. Returns and remittances can also be filed electronically through a participating financial institution. For more information, visit our GST/HST Web page at **www.ccra.gc.ca**, or contact your financial institution.

## Individuals claiming a GST/HST exemption

Vendors should be aware that some individuals are claiming exemptions and, in some cases, presenting cards in an attempt to avoid paying GST/HST on their purchases. Although some provinces issue exemptions from provincial sales tax to farmers, municipalities, and other businesses, these do not apply to GST/HST. The only individuals who can purchase goods and services without paying GST/HST are Indians, under very specific conditions listed on page 43.

If you do not collect GST/HST from an individual falsely claiming to be exempt from paying GST/HST, **you still have to remit** the tax you should have collected.

## Direct deposit

If you are expecting refunds or rebates when you file your GST/HST returns, you can complete and send us Form GST469, *Direct Deposit Request*. This is a safe, convenient, dependable, and time-saving method of receiving your GST/HST refunds and rebates.

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## Terms we use in this guide

**Basic tax content** of a property generally means the amount of GST/HST that you paid on the property, and on any improvements to the property, less any amounts that were reimbursed to you (such as rebates or remissions, but not input tax credits). You also have to consider the fair market value of the property as well as the value at last acquisition (including any improvements). For more information, refer to page 17.

**Calendar quarter** means a period of three consecutive months ending on the last day of any of the following months: March, June, September, and December.

**Calendar year** means a year that begins on January 1 and ends on December 31.

**Commercial activity** means any business, adventure, or concern in the nature of trade carried on by certain persons, but does not include the making of exempt supplies. It also includes the supply of real property by any person, other than an exempt supply, and anything done in the course of making the supply or in connection with the supply.

A commercial activity does not include any business or adventure or concern in the nature of trade carried on without a reasonable expectation of profit by an individual, a personal trust, or a partnership where all the members are individuals.

**Exempt supplies** are goods and services that are not subject to GST/HST. GST/HST registrants cannot claim input tax credits to recover the GST/HST they pay or owe on expenses related to such supplies.

**Input tax credit (ITC)** means a credit GST/HST registrants can claim to recover the GST/HST they paid or owe for goods or services they acquired, imported into Canada, or brought into a participating province for use, consumption, or supply in the course of their commercial activities.

**Participating province** means the province of Nova Scotia, New Brunswick, or Newfoundland and Labrador.

### Note

The HST rate in participating provinces is **15%** and the GST rate in the rest of Canada is **7%**.

**Person** means an individual, a partnership, a corporation, the estate of a deceased individual, a trust, or any organization such as a society, a union, a club, an association, or a commission.

**Property** means any property, whether real or personal, movable or immovable, tangible or intangible, corporeal or incorporeal, and includes a right or interest of any kind, a share and a chose in action, but does not include money.

**Public institution** means a registered charity for income tax purposes that is also a school authority, public college, university, hospital authority, or a local authority determined to be a municipality.

**Public service body** means a charity, non-profit organization, municipality, school authority, hospital authority, public college, or university.

**Real property** includes:

- a mobile home or floating home and any leasehold or proprietary interest therein;
- in Quebec, immovable property and every lease thereof; and
- in any other place in Canada, all land, buildings of a permanent nature, and any interest in real property.

**Registrant** means a person that is registered or has to be registered for GST/HST.

**Small supplier** refers to a person whose worldwide taxable supplies were equal to or less than \$30,000 (\$50,000 for public service bodies) in a calendar quarter and over the last four consecutive calendar quarters. For detailed information on how to calculate the small supplier threshold, see “Small supplier” on page 9.

**Supply** means the provision of property or a service in any way, including sale, transfer, barter, exchange, licence, rental, lease, gift, and disposition.

**Taxable supplies** refers to goods and services that are supplied in the course of a commercial activity and are subject to GST/HST at the rate of 7%, 15%, or 0% (zero-rated).

**Zero-rated supplies** refers to a limited number of goods and services that are taxable at the rate of 0%. This means there is no GST/HST charged on the supply of these goods and services, but GST/HST registrants can claim an ITC for the GST/HST they pay or owe on purchases and expenses made to provide them.

## What is GST/HST?

**G**ST is a 7% tax that applies on most taxable supplies made in Canada. The three participating provinces harmonized their provincial sales tax with GST to create the harmonized sales tax (HST). HST applies to the same base of goods and services as GST, but at the rate of 15%. Of this, 7% is the federal part and 8% is the provincial part.

GST/HST registrants who make taxable supplies (other than zero-rated supplies) in the three participating provinces collect tax at the 15% HST rate. They collect tax at the 7% GST rate on taxable supplies of goods and services they make in the rest of Canada (other than zero-rated supplies). For more information on HST, see page 25.

## Who pays GST/HST?

Almost everyone has to pay GST/HST on purchases of taxable supplies of goods and services (other than zero-rated supplies). However, some groups or organizations, such as many provincial and territorial governments, and Indians, do not always pay GST/HST on their purchases. See page 42 for more information.

## Who charges GST/HST?

Generally, as a GST/HST registrant, you have to collect GST/HST on all taxable (other than zero-rated) supplies of goods and services you provide to your customers.

However, there are some exceptions for taxable real property. For more information, see page 35.

## Taxable goods and services

Most goods and services supplied in or imported into Canada are taxable at 7%, 15%, or 0%.

Examples of goods and services taxable at 7% or 15% include:

- commercial real property and newly constructed residential real property;
- rentals of commercial real property;
- sales and leases of automobiles;
- gasoline;
- car repairs;
- soft drinks, candies, and potato chips;
- clothing and footwear;
- advertising (unless provided to a non-resident of Canada who is not registered for GST/HST);
- taxi and limousine fares;
- legal and accounting fees;
- franchise fees;
- hotel accommodation; and
- barber and hairstylist services.

Examples of goods and services taxable at 0% (zero-rated) include:

- basic groceries such as milk, bread, and vegetables;
- agricultural products such as grain, raw wool, and dried tobacco leaves;
- most farm livestock;
- most fishery products such as fish for human consumption;
- prescription drugs and drug-dispensing fees;
- medical devices such as hearing aids and artificial teeth;
- exports (most goods and services taxable at 7% or 15% in Canada are zero-rated when exported);
- many transportation services where the origin or destination is outside Canada; and
- any supply of property or a service that is for the use of the Governor General.

For more information on zero-rated supplies, see GST/HST Memoranda Series Chapter 4, *Zero-Rated Supplies*.

## Exempt goods and services

A small number of goods and services are exempt from GST/HST – that is, no GST/HST applies to them.

Generally, if you provide **only** exempt goods and services, you cannot register for GST/HST. This means that you do not charge your customers GST/HST on your supplies of goods and services, and you do not claim ITCs.

Examples of exempt goods and services include:

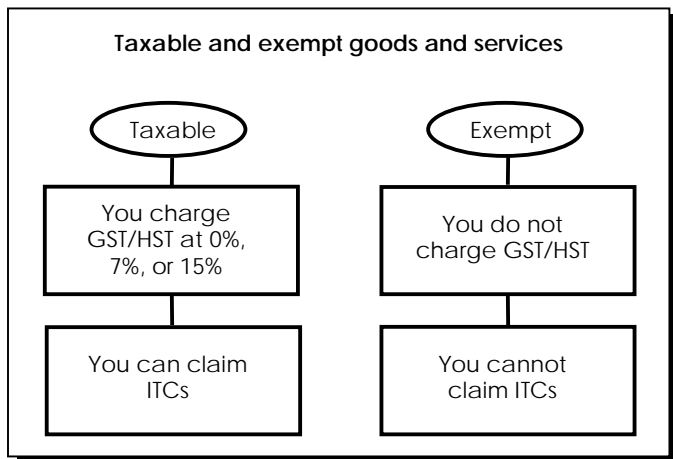
- used residential housing;
- long-term residential accommodation (of one month or more), and residential condominium fees;
- most health, medical, and dental services performed by licensed physicians or dentists for medical reasons;
- child-care services (day-care services provided usually for less than 24 hours a day) provided primarily to children 14 years old and younger;
- bridge, road, and ferry tolls (ferry tolls are zero-rated if the ferry service is to or from a place outside Canada);
- legal aid services;
- many educational services such as courses supplied by a vocational school leading to a certificate or a diploma which allows the practice of a trade or a vocation, or tutoring services made to an individual in a course that follows a curriculum designated by a school authority;
- music lessons;
- most services provided by financial institutions such as arrangements for a loan or mortgage;
- arranging for and issuing insurance policies by insurance companies, agents, and brokers;
- most goods and services provided by charities; and
- certain goods and services provided by non-profit organizations, governments, and other public service bodies such as municipal transit services and standard residential services such as water distribution.

## How does GST/HST work?

As a GST/HST registrant, you charge your customers tax on the taxable goods and services you supply to them. You can claim an ITC to recover the GST/HST you paid or owe on purchases and expenses you use, consume, or supply in your commercial activities. Usually, commercial activities are those undertaken to provide taxable goods and services.

For example, if you buy taxable goods to resell in your store, you can recover the GST/HST you paid on those goods by claiming an ITC. You cannot claim an ITC to recover the GST/HST you paid or owe on purchases related to supplies of exempt goods and services, or those for personal use. For more information on ITCs, see page 13.

From a consumer's point of view, there is no difference between zero-rated and exempt goods and services, because no tax is charged in either case. However, the difference for you as a registrant is that although you do not collect GST/HST on zero-rated goods and services, you can claim ITCs.



When you complete your GST/HST return, deduct your ITCs (GST/HST you paid or owe) from the GST/HST you charged your customers. If the total amount of tax you charged is more than the amount of your ITCs, send us the difference. If the total amount of tax you charged is less than the amount of your ITCs, you can claim a refund. The difference between the total amount of tax charged and the amount of your ITCs is your **net tax**. For details on calculating your net tax, see page 19.

## Should you register?

You have to register for GST/HST if:

- you provide taxable supplies in Canada; and
- you are not a small supplier.

You do not have to register if:

- your only commercial activity is the sale of real property, otherwise than in the course of a business; or
- you are a non-resident who does not carry on business in Canada. If you are a non-resident, see our guide called *Doing Business in Canada – GST/HST Information for Non-Residents*.

## Small supplier

You are a small supplier if you meet one of the following conditions:

- If you are a **sole proprietor**, your total taxable revenues (before expenses) from all your businesses are \$30,000 or less in the last four consecutive calendar quarters and in any single calendar quarter.
- If you are a **partnership or a corporation**, the total taxable revenues of the partnership or corporation are \$30,000 or less in the last four consecutive calendar quarters and in any single calendar quarter.
- If you are a **public service body** (charity, non-profit organization, municipality, university, public college, school authority, or hospital authority), the total taxable revenues from all the activities of the organization are \$50,000 or less in the last four consecutive calendar quarters and in any single calendar quarter. A gross revenue threshold also applies to charities and public

institutions. For more information, see the guide called *GST/HST Information for Charities*.

In all cases, total taxable revenues means your worldwide revenues from your supplies of goods and services subject to GST/HST (or would be if supplied in Canada) at a rate of 7% and 15%, and your zero-rated supplies. However, it does not include goodwill, financial services, and sales of capital property. You also have to include the total taxable revenues of all your associates in this calculation. Call us if you need help to determine if you are associated to another person.

In summary, if your total taxable revenues exceed \$30,000 (\$50,000 for public service bodies) in a single calendar quarter or in four consecutive calendar quarters, you are no longer a small supplier and you have to register for GST/HST. Call us if this happens.

### Exception

Taxi and limousine operators, for their taxi operations, and non-resident performers selling admissions to seminars and other events must register for GST/HST, even if they are small suppliers.

The effective date of your GST/HST registration depends on when you exceed the small supplier threshold amount. If you exceed the threshold amount in one calendar quarter, you are considered a registrant and must collect GST/HST on the supply which made you exceed the threshold amount. Your effective date of registration would then be the day you made the supply that made you exceed the threshold amount. You will have 29 days from this day to apply for registration. However, if you do not exceed the threshold amount in one calendar quarter, but you do over four consecutive calendar quarters, you are considered to be a small supplier for those four calendar quarters and a month following those quarters. Your effective date of registration would be the day the first supply was made after you cease being a small supplier. You will have 29 days from this day to register for GST/HST.

## Voluntary registration

If you are a small supplier and you are engaged in a commercial activity in Canada, you can **choose** to register voluntarily, even though you are not legally required to do so. If you register voluntarily, you have to charge and remit GST/HST on your taxable supplies of goods and services, and you can claim ITCs for the GST/HST you paid or owe on purchases related to these supplies. You have to stay registered for at least one year before you can ask to cancel your registration. For more information on cancelling your registration, see page 45.

If you choose not to register, you cannot charge your customers GST/HST, and the GST/HST you pay on your business purchases becomes a cost for which you cannot claim ITCs.

## How to register – Business Number

If you have to register or wish to do so voluntarily, call us or visit your tax services office. You may provide us with the necessary information over the phone, or request Form RC1, *Request for a Business Number (BN)*, to complete

and return to us. You may also register on-line at [www.businessregistration.gc.ca](http://www.businessregistration.gc.ca).

It is the person or business entity that registers for GST/HST. For example, it is the partnership that registers and not each partner.

When you register, you get a Business Number (BN). Your BN will be your business identification for all your dealings with us. For more information, see our guide called *The Business Number and Your Canada Customs and Revenue Agency Accounts*.

If your business is in Quebec, contact the ministère du Revenu du Québec at **1-800-567-4692**.

## Fiscal year

Your fiscal year is the financial year of your business. Usually, your fiscal year for GST/HST purposes is the same as your taxation year for income tax purposes. Generally, the taxation year of the following persons is a calendar year:

- individuals and certain trusts;
- professional corporations that are members of a partnership (such as a corporation that is the professional practice of an accountant, a lawyer, or a doctor); and
- partnerships, where at least one member of the partnership is an individual, professional corporation, or other affected partnership.

However, some persons use non-calendar taxation years. If you are an individual or a trust that uses a non-calendar taxation year, you may want to use that same year as your GST/HST fiscal year. Also, if you are an individual or a trust that uses a non-calendar taxation year, and if you are a member of a partnership, you may want to use the same fiscal year for GST/HST as your business's taxation year.

A corporation can either use its taxation year for income tax purposes as its GST/HST fiscal year, or it can elect to use a calendar year as its GST/HST fiscal year. These are the only two GST/HST fiscal year choices available to corporations. If a corporation changes its non-calendar taxation year to another non-calendar taxation year and its GST/HST fiscal year was the same as the original non-calendar taxation year, the corporation has two choices:

- it can advise us of a change in GST/HST fiscal year as a result of a change in taxation year; or
- it can make an election to change its GST/HST fiscal year to the calendar year.

## Why use a non-calendar fiscal year?

Businesses use non-calendar fiscal years for many reasons. An example is when the calendar year-end is during the business's busy season. In this case, the business owners may wish to have a fiscal year end to be during a less busy time of the year. Another example is if the business is seasonal and there is no business activity at calendar year-end. Some business owners are absent during their off-season, and do not wish to be responsible for preparing books and records at that time of year.

## How to change your fiscal year

If your business has a non-calendar year for GST/HST purposes, you may elect to have a fiscal year that is a calendar year. Also, if you are an individual or a trust and you want to change your GST/HST fiscal year, you need to elect to have an approved non-calendar taxation year that would be the same as for income tax purposes. In either case, call us or complete and send us Form GST70, *Election, or Revocation of an Election, to Change a GST/HST Fiscal Year*. However, if you want to apply to have both your taxation year and your GST/HST fiscal year changed to a non-calendar fiscal year, call our Business Enquiries line at **1-800-959-5525**.

## Reporting periods

Reporting periods are the periods of time for which you file your GST/HST returns. For each reporting period, you have to prepare and send us a GST/HST return showing the amount of GST/HST you charged or collected from your customers and the amount of GST/HST you paid or owe to your suppliers.

Your reporting period is based on your total annual taxable supplies of goods and services made in Canada, including supplies of zero-rated goods and services, as well as the annual taxable supplies of all your associates, if applicable.

When calculating the threshold amount of your annual taxable supplies to determine your reporting period, do not include supplies made outside Canada, zero-rated exports of goods and services, zero-rated financial services, taxable sales of capital real property, or goodwill.

When you register for GST/HST, we assign you the reporting period that requires you to file your GST/HST returns the least frequently. You can choose, based on the amount of your annual taxable supplies, one of the optional reporting periods. The chart below explains the assigned reporting periods and the choices available to you.

If you qualify for an optional reporting period and you want to change your assigned reporting period, call us or complete and send us Form GST20, *Election for GST/HST Reporting Period*.

Assigned and optional reporting periods		
Annual taxable supplies	Assigned reporting periods	Optional reporting periods
\$500,000 or less	Annual	Monthly, Quarterly
More than \$500,000 up to \$6,000,000	Quarterly	Monthly
More than \$6,000,000	Monthly	Nil

If you exceed the threshold amount for your fiscal year (if you have an annual reporting period) or your fiscal quarter (if you have a quarterly reporting period), you have to report more frequently beginning with the first fiscal quarter after you exceeded the threshold amount. For instance, if the threshold amount of a registrant with a quarterly reporting period exceeds \$6,000,000 in a fiscal year, the registrant is required to report monthly beginning

with the first fiscal quarter after exceeding the threshold amount.

We assign an annual reporting period to most financial institutions. If they qualify, they can choose to file monthly or quarterly GST/HST returns using Form GST20.

We assign an annual reporting period to charities, regardless of their revenues. They can choose to file monthly or quarterly returns using Form GST20. For more details, see the guide called *GST/HST Information for Charities*.

## Accounting periods

If your business uses accounting periods other than calendar months or quarters, you have to notify us of the periods you have chosen. For example, if your business uses an exact 52-week fiscal period, the date of your fiscal year-end will differ from year to year.

Usually, your accounting periods have to meet the following guidelines:

- Each fiscal month has to be shorter than 36 days and, except for the first and the last month in a fiscal quarter, longer than 27 days. You can apply to us to have one fiscal month per quarter that is longer than 35 days. You can also apply to have fiscal months, other than the first or last month of the quarter, that are shorter than 28 days.
- A fiscal quarter has to be shorter than 120 days and, except for the first and last fiscal quarters in the fiscal year, longer than 83 days.

If your business is using accounting periods other than calendar months or quarters, or if you want to use fiscal months that do not meet the guidelines, complete and send us Form GST71, *Notification of Accounting Periods*, or send us a written request before the first day of each fiscal year to which it relates.

If you do not notify us of your accounting periods, we will assign fiscal months and fiscal quarters based on calendar months and calendar quarters, and you will have to wait until your next fiscal year to have this option again.

## Collecting GST/HST

As a GST/HST registrant, you are responsible for collecting GST or HST from your customers when you sell or provide taxable goods and services in Canada. You hold this tax in trust until you remit it to us.

### Informing your customers

You need to let your customers know if GST/HST is being applied to their purchases. For taxable supplies (except zero-rated supplies), you have to either:

- indicate the total amount of GST/HST that is included in the price you charge for your goods and services; or
- show the price and the total amount of GST/HST the customer pays or owes.

You can use cash register receipts, invoices, or contracts to inform your customers, or you can post signs at your place of business.

If you are making supplies in a participating province and you choose to indicate the rate of tax, you have to show the total rate as 15%.

### Sales invoices for GST/HST registrants

In addition to the general rules described above, you have to give customers who are GST/HST registrants specific information on the invoices, receipts, contracts, or other business papers that you use when you supply taxable goods and services. This information allows them to substantiate their claims for ITCs or rebates for the GST/HST you charged. Similarly, when you make business purchases, the invoices from your suppliers will substantiate your claims for ITCs. If your customers ask you for an invoice or receipt for purposes of claiming ITCs, you have to give them specific information, depending on the amount of the sale. For details of the information required, see the following chart.

Information required	Total sale under \$30	Total sale of \$30 to \$149.99	Total sale of \$150 or more
Your business or trading name or your intermediary's name	✓	✓	✓
Invoice date or, if you do not issue an invoice, the date on which the GST/HST is paid or payable	✓	✓	✓
Total amount paid or payable	✓	✓	✓
An indication of the total amount of GST/HST charged or that the amount paid or payable for each taxable supply (other than zero-rated supplies) includes GST/HST and the applicable rate of tax (7% or 15%)		✓	✓
When you supply items taxable at 7% and 15%, an indication of which items are taxed at 7% and which are taxed at 15%		✓	✓
Your Business Number or your intermediary's Business Number		✓	✓
The buyer's name or trading name or the name of their duly authorized agent or representative			✓
A brief description of the goods or services			✓
Terms of payment			✓

**Note: Intermediary** of a person, in respect of a supply, means a registrant who, under an agreement with the person, causes or facilitates the making of the supply by the person.

## Provincial sales tax (PST)

When you have to charge GST and PST, calculate GST on the price excluding PST. For more information on how to calculate PST, contact your provincial sales tax office. Remember, in the participating provinces, HST includes both the federal and provincial parts.

## Rounding off fractional amounts

Round off GST/HST to the nearest cent:

- if the amount is less than half a cent, round down; or
- if the amount is equal to or more than one-half cent, round up.

If your customer is buying more than one item and tax applies at the same rate on all items, you may total the prices of all taxable goods and services, calculate the GST/HST payable, and then round off the amount.

## Early-payment discounts and late-payment surcharges

If you offer an early-payment discount on credit sales, you have to charge GST/HST on the full invoice amount even if your customer takes the discount. If you charge late-payment surcharges, you do not charge GST/HST on the surcharge. GST/HST is payable only on the original invoiced amount.

### Example

You operate a business in Manitoba and the invoice shows the price of goods as \$100 plus \$7 GST. The credit terms of the invoice give the customer a 2% discount if the customer

pays within 10 days. GST is \$7, even if your customer takes the discount. The customer pays \$107 (\$100 + \$7 GST). If you charge \$5 for late payment of goods invoiced at \$100, GST does not apply to the late charge. Therefore, GST is still \$7 and the customer pays \$112 (\$100 + \$7 GST + \$5 late charge).

When you invoice an amount that is already net of the early payment discount, charge GST/HST on the invoiced amount.

### Example

You send a customer an invoice with instructions to pay \$108 if payment is made by March 23, or to pay \$118 if payment is made after March 23. You charge GST/HST on the reduced invoiced amount of \$108, even if the customer makes the payment after the March 23 due date.

## Volume discounts

When you offer volume discounts to reduce the sale price, you can reduce the GST/HST payable. If you offer your customers volume discounts – that is, you reduce the price if they buy a certain quantity of goods – the amount of GST/HST you charge depends on whether you offer the discount at the time you make the sale or after you make the sale.

### At the time of sale

If you offer a discount at the time of sale, you collect GST/HST on the net amount – the sale price less the discount. The following sample invoice shows how to treat a volume discount at the time of sale.

**Dodd Company**  
123 ABC Street  
Edmonton AB T0K 2B2

Sold To: Flint Company

Date: October 6, 2002

Business Number: 123456789

Description	Amount	Net amount
10 tables @ \$150.00 ea.	\$1,500.00	
Volume discount (10%)	(150.00)	\$1,350.00
40 chairs @ \$50.00 ea.	2,000.00	
Volume discount (10%)	(200.00)	1,800.00
Lamp	75.00	<u>75.00</u>
Subtotal		\$3,225.00
GST (\$3,225 × 7%)		<u>225.75</u>
Total		<u>\$3,450.75</u>

Terms of payment: Net 30 days

### After the sale

Some businesses give volume discounts after they make the sale and collect or charge GST/HST. The customer usually earns this type of volume discount over a period of time (e.g., over a year) and not on a sale-by-sale basis. In this case, you have to choose whether or not to credit the GST/HST related to the amount of the discount.

If you choose to adjust, refund, or credit GST/HST for the volume discount amount and the customer is a registrant, you have to issue a credit note to the customer to explain the adjustment, which is the discount and the related amount of GST/HST. Alternatively, the customer can issue a debit note to you to indicate the adjustment. Treat credit or debit notes for this purpose the same way as you treat credit or debit notes for returned goods (see page 38).

If you charge or collect GST/HST on a sale and later offer a price reduction or volume discount, you can deduct the amount of GST/HST you adjust, refund, or credit to the customer when you calculate your net tax on your GST/HST return. You can make this adjustment only if you included the GST/HST charged in your net tax calculation for a previous reporting period. Your customer will have to repay any rebate claimed or add the amount of GST/HST adjustment to his or her net tax if an ITC or rebate was claimed for the amount.

If you choose not to adjust the amount of GST/HST you charged, you do not have to adjust your net tax calculation. This is sometimes done when the customer is a GST/HST registrant and has already claimed an ITC. Any price reduction you make does not include a refund, adjustment, or credit of GST/HST, and you or the customer do not have to issue a credit or debit note for GST/HST purposes or make any adjustment on your GST/HST return.

## Input tax credits

**A**s a registrant, you recover the GST/HST you paid or owe on the purchases and expenses related to your

commercial activities by claiming an ITC on **line 106** of your GST/HST return.

If you keep track of the GST/HST you paid or owe by adding a column for GST/HST to the purchases and expenses side of your records, total this column to calculate your ITCs for each reporting period. For example, Gilson Company calculates that it paid \$308 in GST during March, as shown in the following chart.

Gilson Company Purchases and expenses for March				
Date	Cheque no.	Description	Amount excluding GST	GST paid
Mar. 5	354	insurance	\$ 150	
Mar. 7	355	wages	1,000	
Mar. 10	356	office supplies	200	\$ 14
Mar. 18	357	inventory	2,000	140
Mar. 20	358	advertising	500	35
Mar. 21	359	wages	1000	
Mar. 27	360	Utilities	200	14
Mar. 31	361	rent	1,500	105
<b>Total</b>			<b><u>\$6,550</u></b>	<b><u>\$308</u></b>

If you use double-entry accounting, you can keep track of your ITCs by creating an account called "input tax credits" or "GST/HST paid." You would debit this account with the amount of GST/HST you paid or owe on your purchases and expenses.

You can claim ITCs only to the extent that your purchases and expenses are for consumption, use, or supply in your commercial activities.

There are some purchases and expenses for which you **cannot** claim an ITC such as:

- certain capital property (for more information, see "Claiming ITCs for capital property" on page 16);
- taxable goods and services bought or imported to provide exempt goods and services;
- membership fees or dues to any club whose main purpose is to provide recreation, dining, or sporting facilities (including fitness clubs, golf clubs, and hunting and fishing clubs), unless you acquire the memberships to resell in the course of your business; and
- goods or services you bought or imported for your personal consumption, use, or enjoyment.

To claim an ITC, the expenses or purchases must be reasonable in quality, nature, and cost in relation to the nature of your business. Also, an ITC must be based on a reasonable purchase price.

If you are a new registrant, you may be able to claim an ITC for the GST/HST you paid or owe on goods such as capital property and inventory that you have on hand on the day you register. For more details, see "New registrants" on page 15.

## Claiming your ITCs

Most registrants claim their ITCs when they file their GST/HST return for the reporting period in which they made their purchases. However, you can claim your ITCs in any subsequent return that is filed within four years of the due date of the return in which the ITC could have first been claimed.

### Example

You are a quarterly filer and you buy office furniture in the reporting period October 1, 2002, to December 31, 2002, for which you can claim an ITC. The due date of the return is January 31, 2003. You can claim your ITCs in any subsequent return filed before January 31, 2007.

The time limit for claiming ITCs for a reporting period is reduced from four to two years for:

- listed financial institutions; and
- persons with annual taxable supplies of goods and services of more than \$6 million for each of the two preceding fiscal years.

However, the two-year time limit does not apply to the following persons even if they fall into the above two categories (these persons have four years to claim their ITCs):

- charities and;
- persons whose supplies of goods and services (other than financial services) during either of the two preceding fiscal years are at least 90% taxable supplies.

Under the two-year limit, you can claim your ITCs in any subsequent return that is filed within two years of the end of the fiscal year that includes the return in which the ITC could have first been claimed.

### Example

You are a monthly filer with a fiscal year-end of December 31. You buy goods in the reporting period September 1, 2002, to September 30, 2002, for which you can claim an ITC. The fiscal year that includes the September 2002 return ends on December 31, 2002. You can claim the ITC in any subsequent return until December 31, 2004.

## Operating expenses

Examples of operating expenses for which you may claim an ITC are: commercial rent, equipment rentals, advertising, utilities, and office supplies such as postage, computer disks, paper, and pens.

If you intend to use at least 90% of an operating expense for your commercial activities, you can claim a full ITC for the GST/HST you pay on that expense.

If you intend to use at least 90% of an operating expense for an exempt activity, you cannot claim an ITC for the GST/HST you pay on that expense. For example, if you hire a paving company to pave a parking lot at an apartment building that you rent out (an exempt activity),

you cannot claim an ITC for the GST/HST you pay to the paving company.

### Exception

Financial institutions must use 100% of their expenses in commercial activities before they can claim full ITCs. But, they can claim partial ITCs even where they use less than 10% of their expenses in commercial activities.

If you provide both taxable and exempt goods and services and you cannot attribute at least 90% of the operating expenses to a taxable or exempt activity, you can only claim ITCs for the part of those expenses you use in your commercial activities.

For mixed-use expenses, you have to determine their percentage of use in your commercial activities.

### Example

You own a building in Nova Scotia where you operate your retail store (a commercial activity), and you rent an apartment on the upper floor to a residential tenant (an exempt activity). The rent includes utilities. Your utility bill for both commercial and exempt activities is \$200 a month plus \$30 HST. If you determine that 70% of the utility bill relates to the store and 30% to the apartment, you can claim an ITC for 70% of the HST you pay on your utility bill:

$$\$30 \times 70\% = \$21$$

The method you use to determine the percentage of operating expenses you use in commercial activities has to be fair and reasonable and used consistently throughout the year. For example, a method commonly used is the number of square metres of space used in commercial activities relative to the total space of the building.

## Meal and entertainment expenses

You can claim an ITC for the GST/HST you pay on reasonable meal and entertainment expenses that relate to your commercial activities by using, in most cases, the same limitation rules as those for income tax purposes. When the deduction for income tax purposes is limited to 50% of the cost of meals and entertainment, then 50% of the GST/HST you pay on those expenses qualifies for an ITC.

### Note

The above rule does not apply to charities or public institutions. These persons do not have to reduce the amounts by 50% when they are entitled to claim an ITC for meal and entertainment expenses.

You can choose one of the following two ways to calculate your ITCs for meal and entertainment expenses:

- You can claim 100% ITCs for these expenses throughout your fiscal year. If you file monthly or quarterly GST/HST returns, add the 50% adjustment for the excess ITCs you claimed during the year to your net tax calculation for the first reporting period after the end of your fiscal year. If you file annually, add the 50% adjustment to your net tax calculation for that fiscal year. Enter the adjustment on **line 104** of your GST/HST return.

- You can claim 50% of the actual GST/HST you pay on these expenses during each reporting period. By choosing this method, you do not have to make any adjustments at the end of your fiscal year.

You can claim an ITC for the GST/HST you reimburse to your employees and partners for meal and entertainment expenses they incurred in Canada. However, these expenses are also subject to the 50% limit.

## Employee, partner, and volunteer expenses

### Reimbursements

You can claim ITCs for the GST/HST included in reimbursements you pay to your employees or partners for expenses they incurred in Canada on your behalf for your commercial activities. If you are a charity or public institution, you can also claim ITCs for the GST/HST included in reimbursements you pay to your volunteers.

You can choose one of the following methods to calculate your ITCs:

- multiply the total amount you reimbursed for expenses by 6/106 if 90% or more of these expenses were taxable at 7% GST, or by 14/114 if 90% or more of these expenses were taxable at 15% HST; or
- use the exact calculation method when you determine the actual GST/HST you incurred on reimbursed expenses. Calculate GST/HST using the formula:

$$A \times B$$

**A** is the GST/HST paid by the employee, partner, or volunteer on the goods or services;

**B** is the lesser of the following amounts:

- the percentage of the cost to the employee, partner, or volunteer that you reimburse (reimbursement divided by cost); and
- the extent to which the employee, partner, or volunteer acquired, imported, or brought into a participating province the goods or services for consumption or use in relation to your commercial activities.

### Example (using the exact calculation method)

Your employee incurs an expense of \$575 (\$500 plus \$35 GST and \$40 provincial sales tax) for use 100% in your commercial activity. You reimburse your employee \$345 for this expense. You can claim an ITC equal to the lesser of the following amounts:

$$A \times B = \$35 \times \frac{\$345}{\$575} = \$21$$

**and**

$$A \times B = \$35 \times 100\% = \$35$$

You can claim an ITC of \$21 for the reimbursement.

The method you choose to calculate your ITCs for reimbursements must be used consistently throughout your fiscal year. For example, if you use the 6/106 or 14/114 factor to calculate your ITCs for meal and entertainment expenses reimbursed to one employee, you have to use this

method to calculate your ITCs for the same types of reimbursements made to other employees.

### Allowances

In general, you can claim an ITC equal to 7/107 or 15/115 of a reasonable allowance you pay to your employees or partners, (or volunteers if you are a charity or a public institution), if you meet the following conditions:

- the allowance is used to pay for expenses of which 90% or more are incurred in Canada and are taxable at 7% GST or 15% HST;
- the allowance is or would be deductible for income tax purposes; and
- the expenses incurred by your employees, partners, or volunteers would have been eligible for ITCs if you had incurred them.

To claim an ITC of 15/115 of the allowance, at least 90% of the expenses must be incurred in participating provinces.

A motor-vehicle allowance that is reasonable for income tax purposes also qualifies for an ITC. In order to claim an ITC for the HST part of the allowance, the use of the motor vehicle must be in the participating provinces.

### Home office expenses

You can claim ITCs for your home office expenses only if the work space is:

- your principal place of business; or
- used 90% or more to earn income from your business and used on a regular and continuous basis for meeting your clients, customers, or patients.

This restriction for home office expenses is similar to those used for income tax purposes.

### New registrants

If you are a new registrant, you can claim an ITC for the GST/HST you paid or owe on goods such as capital property, real property, and inventory that you had on hand to use in your commercial activities at the time you became a registrant. We consider that you bought the property at that time and paid GST/HST equal to the basic tax content of the property. The basic tax content formula is explained in the next section, "Claiming ITCs for capital property."

You can also claim an ITC for any GST/HST you prepaid for rent, royalties, or similar payments that relate to the period after you became a registrant. You cannot claim an ITC for the GST/HST you paid or owe on services or accommodation you consumed, used, or supplied during a period before you became a registrant, even if you paid that GST/HST after you became a registrant.

### Example

You prepaid 3 months rent for office space for use in your commercial activities for the period January 1, 2002, to March 31, 2002. If you became a registrant on March 1, 2002, you can claim an ITC for the GST/HST you paid on rent for the month of March. You cannot claim an

ITC for the GST/HST you paid for rent from January 1 to February 28, because that amount relates to the period before you became a registrant.

## Claiming ITCs for capital property

Capital property for GST/HST purposes is based on the meaning of the term for income tax purposes. It is:

- any depreciable property. This means property that is eligible or would be eligible for a capital cost allowance for income tax purposes; and
- any property, other than depreciable property, from which any gain or loss if you disposed of the property would be a capital gain or capital loss for income tax purposes.

Capital property is property you buy for investment purposes or to earn income. It may include real property such as land or a building, or personal property such as equipment or machinery that you use in your business. Other examples of capital personal property include:

- photocopiers, computers, and cash registers;
- furniture and appliances used to furnish places such as offices, lobbies, and hotel rooms; and
- free-standing refrigerators, ovens, and other large appliances (built-in appliances are fixtures that are usually considered to be part of the real property).

Capital property for GST/HST purposes does not include property described for income tax purposes in class 12 (such as chinaware, cutlery, or other tableware costing less than \$200), class 14 (certain patents, franchises, concessions, or licences for a limited period), or class 44 (a patent or a right to use patented information for a limited or unlimited period). You can claim ITCs for these items based on the rules for operating expenses explained on page 14.

## Capital personal property

The general rules for claiming ITCs for capital personal property such as computers, equipment, and office furniture are as follows:

- If you use the capital personal property primarily (more than 50%) in your commercial activities, you can claim a full ITC.
- If you use the capital personal property 50% or less in your commercial activities, you cannot claim an ITC.

### Example

You buy a computer for \$2,000 plus \$140 GST. You will use the computer 60% in your commercial activities and 40% for personal use. Since you will use the computer more than 50% in your commercial activities, you can claim the full amount of GST you pay (\$140) as an ITC.

### Exception

Financial institutions have to claim their ITCs for capital property based on the actual extent of the property's use in commercial activities.

## Passenger vehicles and aircraft

Passenger vehicles and aircraft of corporations follow the above rule. However, the rule does not apply to passenger vehicles and aircraft of an individual or a partnership. In these cases, the ITC is based on the capital cost allowance (CCA) claimed for income tax purposes. If the use in commercial activities is less than 10% or more than 90%, see the chart on page 17 for the rules.

You usually calculate your CCA for income tax purposes at the end of your fiscal year. Once you have calculated your CCA, calculate your ITC by using the formula  $CCA \times 7/107$  for GST purposes,  $CCA \times 15/115$  for HST purposes, or  $CCA \times 8/108$  when you bring a vehicle or aircraft into a participating province.

### Example

You are self-employed and use your vehicle in your commercial activities and for personal use. The use in commercial activities is 60%. For the year ended December 31, 2002, the CCA claimed for income tax purposes for your vehicle is \$3,000. The ITC you can claim is as follows:

If you paid 7% GST on the purchase of the vehicle,

$$\$3,000 \times 7/107 = \$196.26$$

If you paid 15% HST on the purchase of the vehicle,

$$\$3,000 \times 15/115 = \$391.30$$

## Improvement to capital personal property

An improvement to capital personal property means any property or service supplied or goods imported to improve the capital personal property, to the extent that the price paid for those supplies is included in determining the adjusted cost base of the capital personal property. If you have paid GST/HST for the acquisition or importation, you can claim an ITC if you are using the capital personal property primarily in your commercial activities. If the improvement is to a passenger vehicle or aircraft, you can add the cost of improvement to the adjusted cost base of the passenger vehicle or aircraft. You cannot include any amount for improvement to a passenger vehicle that will make the adjusted cost base exceed the capital cost limitation.

### Musical instruments

If you are a registered individual or member of a partnership and you use a musical instrument for employment purposes or in a business carried on by the partnership, we consider that use to be in your commercial activities, and you can follow the general rules for claiming ITCs for capital personal property.

## Change-of-use rules for capital personal property

### From exempt to commercial use

When you change the primary use of capital personal property from exempt to commercial, we consider you to have sold the property, reacquired it, and paid GST/HST at that time. This means you can claim an ITC based on the basic tax content of the property at that time.

We have simplified the **basic tax content** formula to accommodate most registrants. It may not apply to some registrants such as selected listed financial institutions. Call us if you need more information. The **basic tax content formula** is as follows:

$$(A - B) \times C$$

**A** is the GST/HST payable at last acquisition and the GST/HST payable on improvements to the property;

**B** is any rebate or refund entitlement (not including ITCs);

**C** is the lesser of:

- 1; and
- the fair market value of the property at the time of the change in use divided by the cost at the last acquisition of the property and improvements to the property.

The following example shows the basic tax content calculation when the use has changed.

**Example**

You operate several commercial and residential rental buildings in Ontario. You pay GST on the purchase of a tractor for use primarily for the residential buildings (exempt activity). You cannot claim an ITC for this purchase and you are not entitled to any refunds or rebates.

Cost of tractor ..... \$10,000  
 GST payable (\$10,000 × 7%) ..... \$ 700

Later, you change the primary use of the tractor to the commercial buildings (commercial activity). You can now claim an ITC based on the basic tax content of the tractor when the primary use changed.

If the fair market value of the tractor was \$7,000 when you changed the use, you can claim an ITC of \$490 based on the basic tax content formula explained above.

$$\begin{aligned} \text{Basic tax content} &= (A - B) \times C \\ &= (\$700 - \$0) \times \frac{\$7,000}{\$10,000} \\ &= \$490 \end{aligned}$$

Enter this amount on **line 106** of your GST/HST return.

**From commercial to exempt use**

If you change the primary use from commercial to exempt, you have to self-assess and pay GST/HST based on the basic tax content of the capital personal property.

**Example**

You are the operator described in the previous example. After changing the use of the tractor to primarily commercial activities, you now change the use back to primarily exempt activities. The tractor’s fair market value is now \$4,000. You have to pay GST based on the basic tax content of the tractor.

The **basic tax content** formula is explained on this page.

$$\begin{aligned} \text{Basic tax content} &= (A - B) \times C \\ &= (\$490 - \$0) \times \frac{\$4,000}{\$7,000} \\ &= \$280 \end{aligned}$$

You pay GST of \$280 because of the change in primary use. Include this amount on **line 103** of your GST/HST return.

**Sale of capital personal property**

If you sell capital personal property that was used more than 50% in your commercial activities, you have to charge GST/HST on the sale. However, you do not charge GST/HST on the sale if the property was used 50% or less in your commercial activities.

The chart below is a quick reference to the rules for claiming ITCs on capital personal property.

ITCs for acquisition of capital personal property						
	Percentage of use in commercial activities	Corporations	Partnerships	Individuals	Public service bodies	Financial institutions
Personal property	≤ 50%	None	None	None	None	% of use
	> 50%	100%	100%	100%	100%	% of use
Passenger vehicles <sup>1</sup> and aircraft	≤ 10%	None	None	None	None	% of use
	> 10% to 50%	None	CCA <sup>2</sup>	CCA <sup>2</sup>	None	% of use
	> 50% to < 90%	100%	CCA <sup>2</sup>	CCA <sup>2</sup>	100%	% of use
	≥ 90%	100%	100%	100%	100%	% of use

<sup>1</sup> The portion of the cost of passenger vehicles eligible for an ITC is limited to the capital cost limitation, which is \$26,000 for 1998 and 1999, \$27,000 for 2000, and \$30,000 for 2001 and 2002 (the amount does not include federal or provincial sales taxes).

<sup>2</sup> CCA refers to the capital cost allowance for income tax purposes. You determine your ITC annually using the formula CCA × 7/107 for GST purposes, CCA × 15/115 for HST purposes, or CCA × 8/108 when bringing a vehicle or aircraft into a participating province and the 8% provincial part of HST is payable, as long as you do not use the vehicle or aircraft in exempt activities. If you use the vehicle or aircraft in both commercial and exempt activities, only the part of the CCA attributable to the commercial activities may be used to calculate your ITCs.

## Capital real property

The rules for claiming ITCs for capital real property, such as a building, depend on whether you are a corporation, a partnership, an individual, a financial institution, or a public service body. For more information on real property, see “Real property” on page 35.

## Simplified Method for claiming ITCs

Under the Simplified Method for claiming ITCs, you do not have to show GST/HST separately in your records. You only need to total the amount of your taxable purchases for which you can claim an ITC. However, you have to keep the usual documents to support your ITC claims for audit purposes.

You can use the Simplified Method if your annual worldwide revenues from taxable goods and services (including those of your associates) are \$500,000 or less in your last fiscal year.

Your total taxable supplies (including those of your associates) for all preceding fiscal quarters of the current fiscal year must also be \$500,000 or less. These limits do not include goodwill, zero-rated financial services, or sales of capital real property.

Also, you must have \$2 million or less in taxable purchases made in Canada in your last fiscal year to qualify to use this method. The \$2 million purchase limit does not include zero-rated purchases, but includes purchases imported into Canada or brought into a participating province.

If you are a public service body, you must be able to reasonably expect that your taxable purchases in the current fiscal year will not be more than \$2 million.

### Exception

Listed financial institutions cannot use the Simplified Method to calculate ITCs.

If you qualify, you can start using the Simplified Method at the beginning of a reporting period. You do not have to file any forms to use it. Once you decide to use this method, you have to use it for at least one year if you continue to qualify.

## How does the Simplified Method work?

If you make purchases in both participating and non-participating provinces, you have to separate your purchases that are taxable at 7% from those taxable at 15%.

To calculate your ITCs for each reporting period, total your taxable purchases, including GST or HST, provincial sales tax (PST), tips, and penalty and interest charges on late payments, and:

- multiply by 7 and divide the result by 107 for GST purchases; or
- multiply by 15 and divide the result by 115 for HST purchases.

You can use the Simplified Method to calculate ITCs only for purchases you use to provide taxable goods and services. If you use your purchases for personal use, or to provide both taxable and exempt goods and services, only the portion used for providing taxable goods and services

can be included in the ITC calculation. If you use a purchase at least 90% to provide taxable goods and services, you can include the total purchase price in your ITC calculation.

To calculate ITCs using the Simplified Method, follow these steps:

### Step 1

**Add up** separately your business purchases and expenses that are taxable at 7% GST and 15% HST and for which you can claim an ITC. Include capital personal property purchases and improvements that you use more than 50% in your commercial activities. Your totals will include:

- GST or HST;
- non-refundable PST (only for 7% GST-taxable purchases);
- taxes or duties on imported goods;
- reasonable tips;
- interest and late penalty charges related to purchases taxable at 7% or 15%; and
- reimbursements paid to employees, partners, and volunteers for taxable expenses.

Do **not** include:

- expenses on which you have not paid GST/HST such as employees' salaries, insurance payments, interest, exempt or zero-rated purchases, and purchases from a non-registrant;
- purchases you made outside Canada which are not subject to GST/HST;
- real property purchases;
- refundable or rebatable PST;
- purchases for which you are not entitled to claim an ITC such as:
  - the portion you use for personal use or to provide exempt goods and services;
  - capital personal property that you do not use more than 50% in your commercial activities; and
  - the portion of the cost of a passenger vehicle that exceeds the capital cost limitation for income tax purposes (for more information, see the chart on page 17);
- 50% of the meal and entertainment expenses (you may include 100% of the expenses and make the 50% adjustment at the end of your fiscal year);
- if you are an individual or a partnership, passenger vehicles or aircraft you bought or imported that you will not use 90% or more in commercial activities (see the chart on page 17 for more information); and
- amounts paid or payable in reporting periods before you started using the Simplified Method to calculate your ITCs.

**Note**

If you also use the Quick Method of accounting, only include business purchases for which you are entitled to claim ITCs such as purchases of capital equipment.

**Step 2**

**Multiply** your total taxable purchases from step 1 by 7/107 for GST purchases or 15/115 for HST purchases.

**Step 3**

**Add** the following amounts, if they apply, to your ITC amount calculated in step 2:

- ITCs you did not claim before you started using the Simplified Method, as long as the time limit for claiming them has not expired;
- ITCs for the GST/HST you paid or owe on real property purchases. To determine the ITC you can claim for real property purchases, see “Real property” on page 35; and
- if you are an individual or a partnership, the ITC you may claim for a passenger vehicle or an aircraft used less than 90% in your commercial activities.

Enter this total on **line 106** of your GST/HST return.

The following example shows you how to calculate your ITC for various purchases and expenses step by step.

**Example (7% GST, 8% PST)**

Description	Expenses*
Rent	\$ 1,070
Employees' salaries**	3,000
Insurance**	50
Capital property used more than 50% in commercial activities	575
Advertising	214
Office supplies	230
Inventory purchases	1,150
Land***	<u>21,400</u>
<b>Total purchases and expenses</b>	<b><u>\$27,689</u></b>

\* Includes GST and any non-refundable PST.  
 \*\* GST does not apply.  
 \*\*\* Does not include any PST.

**Step 1**

Add all purchases and expenses including GST and PST

	\$27,689.00
--	-------------

Less employees' salaries, insurance, and land (\$3,000 + \$50 + \$21,400)	( <u>\$24,450.00</u> )
---	------------------------

Taxable expenses	\$3,239.00
------------------	------------

**Step 2**

Multiply taxable expenses by 7/107 (\$3,239 × 7/107)	\$211.90
--	----------

**Step 3**

Add ITC on land (\$21,400 × 7/107)	<u>\$1,400.00</u>
------------------------------------	-------------------

<b>ITC</b>	<b><u>\$1,611.90</u></b>
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**Calculating your net tax**

You need to calculate your business's net tax for each GST/HST reporting period and report this on your GST/HST return. To do so, calculate:

- the GST/HST collected and collectible on your taxable supplies made during the reporting period; and
- the GST/HST paid and payable on your business purchases and expenses for which you can claim an ITC.

The difference between these two amounts, including any adjustments, is called your **net tax**. It is either your GST/HST remittance or your GST/HST refund. If you charged more GST/HST than you paid or owe, send us the difference. If you paid or owe more GST/HST than you charged, you can claim a refund of the difference.

For most businesses, this calculation is straightforward. However, to help reduce paperwork and bookkeeping costs, most small businesses can use the Quick Method of accounting to calculate their GST/HST remittance. See the next page for more information.

**GST/HST charged and not collected**

You are liable for the GST/HST you charge on goods or services on the day you receive payment or the day the payment is due, whichever is earlier. We usually consider payment to be due on the date you issue an invoice or the date in an agreement, whichever comes first. Therefore, if you issue an invoice before you receive the payment, you have to include the GST/HST charged on this invoice in the reporting period that includes the date of the invoice, even if you have not yet collected the tax. Include the GST/HST you charged for both paid and unpaid invoices on **line 103** of your GST/HST return for the reporting period in which you issued the invoices.

**GST/HST payable and not paid**

When you calculate your ITCs, you can include the GST/HST for purchases and expenses for which you have been invoiced but not yet paid. This means that you can get a credit for the GST/HST you owe to your suppliers before you pay the invoice.

**Bad debt adjustments**

If you already included the GST/HST on a credit sale on your GST/HST return, you remitted any outstanding net tax, and that sale became in whole or in part a bad debt, you can recover the GST/HST as a tax adjustment on **line 107** of your return. To do this, the debt has to be written off as a bad debt in your records, and you have to deal with the person at arm's length.

Use the following formula to calculate the tax adjustment:

$$A \times \frac{B}{C}$$

**A** is the GST/HST payable on the sale;

**B** is the total amount that remains unpaid for the supply that was written off as a bad debt, including GST/HST and applicable provincial sales taxes (PST);

**C** is the total amount of the sale, including GST/HST and applicable PST.

### Example

You receive only a partial payment of \$800 towards a credit sale of \$1,150, including \$70 GST and \$80 PST. The remaining unpaid balance of \$350 later proves to be uncollectible and you write it off as a bad debt. You can recover GST of \$21.30 as a tax adjustment on **line 107** of your GST/HST return:

$$\begin{aligned} \text{Tax adjustment} &= \$70 \times \frac{\$350}{\$1,150} \\ &= \$21.30 \end{aligned}$$

You have to make the tax adjustment in a reporting period that ends within four years of the due date of the return for the reporting period in which you wrote off the bad debt.

### Bad debt recovered

If you claimed a bad debt adjustment on **line 107** and you later receive a payment towards that debt, you have to include the GST/HST portion of that amount as an adjustment on **line 104** of your GST/HST return for the reporting period in which the amount is recovered.

Use the following formula to calculate this tax adjustment:

$$A \times \frac{B}{C}$$

**A** is the amount of the bad debt you recovered;

**B** is the GST/HST payable for the supply to which the bad debt relates;

**C** is the total amount of the sale, including GST/HST and applicable PST.

### Example

In 2001, you made a credit sale of \$1,150, including \$70 GST and \$80 PST. The amount later proved to be uncollectible and you wrote it off as a bad debt. You recovered \$70 GST as a tax adjustment on **line 107** of your GST/HST return. In 2002, you receive a payment of \$400 towards the debt. You now have to include GST in the amount of \$24.35 on **line 104**:

$$\begin{aligned} \text{Tax adjustment} &= \$400 \times \frac{\$70}{\$1,150} \\ &= \$24.35 \end{aligned}$$

## Quick Method of accounting

The Quick Method of accounting is a simple way to calculate the GST/HST you have to remit. You may begin to use this method if your annual worldwide taxable supplies and those of your associates (including zero-rated supplies) are no more than \$200,000 (including GST/HST) in any four consecutive fiscal quarters over the last five fiscal quarters. The \$200,000 limit does not include the following:

- supplies of financial services;
- sales of real property;
- sales of capital assets; and
- goodwill.

Certain businesses such as accountants, bookkeepers, and financial consultants, cannot use the Quick Method.

### How does the Quick Method work?

With the Quick Method, you charge and collect 7% GST or 15% HST on taxable goods and services you supply to your customers in the usual way. But, to calculate the net GST/HST to remit, you multiply your taxable supplies including GST and your taxable supplies including HST made during the reporting period by the Quick Method remittance rate or rates that apply to those supplies.

#### Note

There are several remittance rates. See the booklet called *Quick Method of Accounting for GST/HST* to help you determine which rate or rates apply to your supplies.

The remittance rates depend on whether you are in the service, retail, or manufacturing business, and on the province in which your permanent establishment is located and where your services are provided. The most common remittance rates are:

- **5%** (or **10%** for businesses in participating provinces\*) for **service businesses** such as delivery services, dry cleaners, auto repair shops, caterers, fast food outlets, travel agents, taxi drivers, photographers, and painting contractors;
- **2.5%** (or **5%** for businesses in participating provinces\*) for **retailers and wholesalers**, including grocery and convenience stores, that buy goods to resupply in the same form as they were bought or to use in goods they produce or manufacture to resell. To qualify for these rates, your purchases (other than basic groceries) must equal at least 40% of your total annual taxable supplies (including GST/HST). Certain supplies such as sales of real property are excluded from the calculation. For more information, see the booklet called *Quick Method of Accounting for GST/HST*. Businesses such as antique dealers, bookstores, boutiques, novelty stores, and service stations could qualify for these rates.

\*The 10% remittance rate for service businesses and the 5% remittance rate for retailers and wholesalers are for businesses in the participating provinces.

For example:

- if you have a service business and you are located in Nova Scotia, New Brunswick, or Newfoundland and Labrador, and 90% or more of your services are provided in these provinces, you will use the 10% remittance rate;
- if you have a service business and you are located in the rest of Canada, and 90% or more of your services are provided in the rest of Canada, you will use the 5% remittance rate.

The Quick Method remittance rates apply only to supplies you make in the usual course of business, on which you must collect 7% GST or 15% HST.

For supplies you make outside the usual course of business, such as real estate sales or sales of used capital goods eligible for a capital cost allowance for income tax purposes, you have to include the GST/HST charged in your net tax calculation rather than using the Quick Method remittance rate. Do not include proceeds from selling your business assets in the sales figure you use for your Quick Method calculation.

### Credit of 1%

You are also entitled to a 1% credit on the first \$30,000 (including GST/HST) of your annual supplies on which you must collect 7% GST or 15% HST. To qualify for this 1% credit, you have to use the Quick Method at the beginning of your fiscal year, or if you are a new GST/HST registrant, on the day you became a registrant.

### Input tax credits (ITCs)

When you use the Quick Method, you do not need to keep track of the GST/HST you pay or owe on your operating expenses (such as utilities, rent, and telephone expenses), meal and entertainment expenses, and inventory purchases. The Quick Method remittance rates take into account the GST/HST you pay on these purchases and expenses. As such, you cannot claim ITCs for your operating expenses. However, you still have to keep records of your purchases and expenses.

You can claim ITCs for certain purchases such as purchases of land and purchases for which you can claim a capital cost allowance for income tax purposes, such as computers, vehicles, other large equipment and machinery.

## How do I start using the Quick Method?

To use the Quick Method, see our booklet called *Quick Method of Accounting for GST/HST*. The booklet includes Form GST74, *Election and Revocation of an Election to Use the Quick Method of Accounting*. You can complete Form GST74 and send it to us, or call us to elect to start using the Quick Method. See Appendix 3 for instructions on how to complete your GST/HST return when you use the Quick Method.

If you are an annual filer, you have to file the election within three months of the beginning of the fiscal year in which you want to use the Quick Method. If you are a monthly or quarterly filer, you have to file the election by

the due date of the return for the reporting period in which you want to start using the Quick Method.

Different simplified accounting methods are available for charities, qualifying non-profit organizations, and other public service bodies. For information on these simplified accounting methods, see the following guides:

- *The Special Quick Method of Accounting for Public Service Bodies;*
- *GST/HST Information for Charities;*
- *GST/HST Information for Non-Profit Organizations;* and
- *GST/HST Information for Municipalities.*

## Filing your GST/HST returns

After you calculate the total GST/HST collected or charged on your supplies of taxable goods and services and your ITCs during your reporting period, you are ready to file your GST/HST return and either make your GST/HST remittance or claim a refund.

The personalized GST/HST return for registrants (Form GST34) includes preprinted information about your account.

The non-personalized GST/HST return (Form GST62) is the same as the personalized return except that you have to enter your personal data on the form. Use this return if you are not registered for GST/HST, or if you have misplaced your personalized return.

We have included a sample of Form GST34 at the end of this guide. See Appendix 3 for instructions on how to complete your return.

If you do not receive a personalized return within 15 working days of the end of your reporting period, or if you lose that return, call us to get Form GST62, *Goods and Services Tax/Harmonized Sales Tax (GST/HST) Return (Non-personalized)*. You still have to file your return by the due date even if you do not receive your personalized return on time.

### Note

If you are a non-resident, you have to complete your GST/HST return in Canadian-dollar amounts and remit any amounts owing in Canadian funds.

## Filing due dates

If your reporting period is monthly or quarterly, you have to file your GST/HST return and remit any amount owing no later than one month after the end of your reporting period.

If your reporting period is annual, you usually have to file your return and remit any amount owing no later than three months after the end of the fiscal year. If you have to pay quarterly instalments, they are due no later than one month after the last day of each fiscal quarter. See the next section for more information on instalment payments.

If you are an individual with business income for income tax purposes who is also an annual filer with a

December 31 fiscal year-end, you have to file your return by June 15. However, any GST/HST remittance is due on April 30 and must be remitted by that date to avoid penalties and interest.

**Note**

If you claim a refund on a return but have not filed all your previous returns or have not remitted all the GST/HST from previous reporting periods, you will not receive a refund. We will use your refund to offset the amounts you owe us.

## Instalment payments

If you are an annual filer, you may have to pay quarterly instalments. These instalment payments are usually calculated on your previous year's net tax.

### Do you have to make instalment payments?

If you are an annual filer and your net tax in a fiscal year is \$1,500 or more, you have to make quarterly instalment payments in the following fiscal year. Usually, the amount of each payment will be ¼ of your previous year's net tax. However, you may also base your instalment payments on an estimate of your current year's net tax if you expect that this year's net tax will be less than last year's. If you choose to do this and your estimate is less than the amount you actually owe at the end of the year, you will have to pay penalties and interest on the difference.

If you are a **new registrant**, an annual filer, and your first year of filing for GST/HST is less than a full fiscal year, you need to prorate your net tax for your first short filing year to determine if you will need to make quarterly instalment payments in the next fiscal year. To prorate your net tax, divide the net tax for this first short fiscal year by the number of months in that fiscal year. This will give you an approximate monthly net tax. To estimate the next year's net tax, multiply the monthly net tax by 12. If the estimated amount is \$1,500 or more, you need to make instalment payments in the next year.

**Example**

Your first year as an annual filer began on May 1, and ended on December 31, 2002. Your net tax for those eight months was \$1,200. To determine if you have to make instalment payments in 2003, prorate your net tax for 2002 as follows:

$$\$1,200 \text{ (net tax)} \div 8 \text{ (months)} = \$150 \text{ (net tax per month)}$$

Estimated annual net tax in 2003:

$$\$150 \text{ (net tax per month)} \times 12 \text{ (months)} = \$1,800 \text{ per year}$$

Since your estimated annual net tax exceeds \$1,500, you have to make quarterly instalment payments in the 2003 fiscal year. Estimate the amount of each instalment payment as follows:

$$\$1,800 \div 4 = \$450$$

If your net tax for the current or previous year is less than \$1,500, you do not have to make quarterly instalment payments in the current year. In this case, you have to file

your GST/HST return and send us the GST/HST owing once a year.

**Note**

Businesses with branches or divisions that file separate returns should note that this \$1,500 limit applies to the total net tax for the whole business, including all branches and divisions.

## Instalment due dates

Instalment payments are due within one month after the end of each of your fiscal quarters.

**Example**

You have a December 31 fiscal year-end. Your instalment due dates are as follows:

Reporting period	Instalment due date
January 1 – March 31	April 30
April 1 – June 30	July 31
July 1 – September 30	October 31
October 1 – December 31	January 31

For more information on when instalments are due, call us.

Use Form GST58, *Goods and Services Tax/Harmonized Sales Tax (GST/HST) Remittance*, to make your quarterly instalment payments. We will send you this form before each instalment due date. If you do not receive your remittance form on time, call us and ask for Form GST426, *Goods and Services Tax/Harmonized Sales Tax (GST/HST) Remittance (Non-personalized)*. You still have to make your payment by the due date even if you do not receive your remittance form on time.

The GST/HST return you file at the end of the year will reconcile your instalments with the amount of net tax you actually owe. Include any remittance owing to balance your instalments with the total net tax for your reporting period. If you based your instalments on the previous year's net tax and you paid those instalments in full and on time, you will not be charged penalty and interest on any balance owing at the end of the year, as long as the balance is remitted by the due date. In any other cases, penalties and interest will be charged on late or insufficient instalments.

## Date received

To avoid penalty and interest charges, we have to receive your remittance by the return's due date. We **do not** consider that you have remitted the net tax you owe until we or a participating financial institution actually receive your remittance. We do not consider a postmark date as the date that we receive your remittance.

If your remittance is submitted through an Automated Teller Machine (ATM) at a participating financial institution, we do not consider that we have received your payment until the financial institution processes the ATM transaction. Please allow sufficient time (generally two or

three days) for the financial institution to process the payment and credit the Receiver General account.

## Filing nil returns

You have to file a GST/HST return for every reporting period, even if you have no net tax to remit and are not expecting a refund. In other words, even if you have no business transactions in a reporting period, you still have to file a return. Otherwise, you may experience delays in getting refunds for later reporting periods and you can expect to receive a failure to file reminder notice. We may also charge a penalty for not filing a GST/HST return.

## How to temporarily stop filing GST/HST returns for specific reporting periods

You may be eligible to stop filing returns for reporting periods during which you have little or no GST/HST to report (for example, if you operate a seasonal or part-time business, or if you are a non-resident who carries on business in Canada only for a short period of time each year).

These reporting periods are called **designated reporting periods**. To temporarily stop filing GST/HST returns, send us a written request. Once we approve your request, you will not have to file GST/HST returns for all designated reporting periods within a fiscal year, as long as you continue to meet the following criteria:

- you expect that the amount of GST/HST you will charge and other amounts that you must add to your net tax in a reporting period will be \$1,000 or less;
- you have met all your obligations with us (Customs, income tax, and GST/HST); and
- you did not revoke a designation for reporting periods in the current fiscal year.

Once approved, a designation for a reporting period may be revoked if you no longer meet the above criteria.

If consecutive reporting periods are to be designated, the total of all the amounts to be added to your net tax for those reporting periods must be \$1,000 or less. Any amount owing in a designated reporting period is carried forward to the next reporting period.

You cannot temporarily stop filing GST/HST returns if you are an annual filer or a branch of a registrant, unless the registrant as a whole applies for designated reporting periods.

## How to file your GST/HST return

If you have to make a remittance, either:

- mail your return and remittance to the address shown on your return; or
- take your return and remittance to any participating financial institution in Canada, unless you are offsetting an amount owing by a rebate or refund. If your GST/HST payment or remittance is \$50,000 or more, you have to make it at a financial institution.

If you are paying at a financial institution and your return requires attached documentation, you will have to send us these documents separately.

Be sure to include your original GST/HST return with your remittance. Print your Business Number on your cheque and make it payable to the Receiver General. Do not send cash in the mail. To avoid processing delays, do not attach receipts or other supporting documents to your return.

If you are claiming a refund or filing a nil return or rebate application, mail it to the address shown on your return. You cannot claim a refund or rebate at your bank or financial institution.

## GST/HST electronic filing and remitting

Eligible GST/HST returns can be filed electronically using GST/HST TELEFILE or GST/HST NETFILE. Returns and remittances can also be filed electronically through a participating financial institution. For more information, visit our Web page at [www.ccra.gc.ca](http://www.ccra.gc.ca), or contact your financial institution.

## Direct deposit

We can also deposit your refunds or rebates directly into your bank account. This can save you time and be more convenient. If you want to use this option, complete and send us Form GST469, *Direct Deposit Request*.

## Branches or divisions filing separate returns

Although you have to register your business as a single entity, you can apply to have your branches or divisions file their own returns. To do this, use Form GST10, *Application or Revocation of the Authorization to File Separate GST/HST Returns and Rebate Applications for Branches or Divisions*.

To qualify to file separately, your branches or divisions have to be separately identified either by their location or the nature of their activities, and separate records must be kept. The branches and divisions have to keep the same reporting periods as the parent company.

## How to use a rebate or refund to decrease an amount owing on your GST/HST return

You can offset the net tax you owe on your GST/HST return with certain GST/HST rebates to which you are entitled. The application forms for these rebates contain a section where you choose to either send the rebate application to us directly or choose to apply the rebate amount to the net tax on your GST/HST return on **line 111**. For more information on the types of rebates that can be applied to an amount owing on your GST/HST return, call us at **1-800-959-5525**.

If you file your return and rebate application together, remit only the difference (if any) between the amount of the rebate and the GST/HST you owe on your return. If the rebate is more than the amount of GST/HST you owe, we will refund you the difference.

For example, if you are applying for a rebate of the GST/HST you paid in error, and at the same time you owe net tax on your return, you can offset the net tax you owe by the rebate amount. Write the amount of your rebate on **line 111** of your return, and include your completed rebate application, Form GST189, *General Application for Rebate of GST/HST*, with the return.

You can also file two or more returns together, offsetting the net tax you owe on one return with a refund claimed on the other. For example, if your business has branches that file separate returns, you can offset your GST/HST remittance by the amount of any refund to which any of your branches are entitled. To do so, file the returns together.

If you are offsetting a remittance by the amount of a refund or rebate, mail all applicable GST/HST returns and rebate applications together to the address shown on your return. Make sure we receive your return, rebate application, and any remittance by the due date.

Although financial institutions will accept GST/HST remittances along with returns, you cannot offset amounts owing at your financial institution.

## After you file

### When can you expect your refund?

We process refunds of net tax claimed on GST/HST returns with the least possible delay. As long as you have included all necessary information and completed your return correctly, we will pay you interest beginning on the day that is 21 days after the later of:

- the date you filed all your previous outstanding returns; and
- the date your GST/HST return is filed with us.

### What penalty and interest do we charge?

There is a penalty of 6% per year plus interest at the prescribed rate for not remitting the net tax outstanding by the due date. We charge penalty and interest on:

- any net tax amount you owe, as shown on **line 109** of your GST/HST return (minus any partial remittances or instalment payments that appear on **line 110** of your return);
- late or insufficient instalments; and
- any other GST/HST amount that you must pay or remit to the Receiver General.

We adjust the prescribed monthly interest rate quarterly to reflect current interest rates. Both the prescribed interest and the penalty are compounded daily. We calculate penalty and interest beginning on the day after the due date of the remittance or payment, until the day we receive the outstanding amount.

### Note

You have to file your GST/HST return on time (postmarked by the due date), even if you are expecting a refund.

### How do you change a return?

If you need to make a change to any return you have sent us, do not file another return.

If you forgot to include an amount in your ITCs, simply add the omitted amount on **line 106** of your next GST/HST return. In most cases, you have up to four years to claim your ITCs. For more information, see "Input Tax Credits" on page 13.

If you need to increase the amount of GST/HST collected or collectible, send a letter to your tax centre indicating your Business Number, the GST/HST reporting period to be amended, and the corrected amounts per line number on your GST/HST return. Make sure an authorized representative signs the letter and includes the name and telephone number of a person we can contact if needed.

### What is voluntary disclosure?

Maybe you should have filed a return for a previous reporting period and did not, or you sent us an incorrect return. If so, you can voluntarily file or correct that return, and pay only the taxes owing (plus interest), without penalty. This means that the 6% penalty is removed if you voluntarily come forward to report the GST/HST you owe from the past. However, this does not apply to the current period return if the return is less than one year overdue, or to any return that we have already started to review.

Call the Voluntary Disclosures Program officer in the Appeals Division of your tax services office. You can discuss your situation without giving your name or a hypothetical basis to begin with.

For more details, see our Web site or get Information Circular 00-1, *Voluntary Disclosures Program*.

### What should you do if you move?

If you move, let us know your new address as soon as possible. If you use direct deposit and are also changing your account at your financial institution, you also need to let us know.

Keeping us informed will ensure that you keep getting your GST/HST returns and refunds on time.

You can change your address by calling our Business Enquiries line, or by writing or visiting your tax services office.

### Director's liability

When a corporation fails to remit tax, the directors may be liable to remit an amount of net GST/HST owing. Call us if you need more information.

### What records should you keep?

Usually, you have to keep all sales and purchase invoices and other records related to your business operations and

GST/HST for six years from the end of the year to which they relate. However, we may ask you to keep the invoices longer than six years. If you want to destroy your records before the time limit expires, you have to send us a written request and wait for our written approval to do so.

As a registrant, you also need the correct information on the invoices you receive from your suppliers to support your ITC claims. Registered businesses should give you invoices showing their Business Number and other required information as described in the chart on page 12.

We administer an audit program. Our auditors may ask to see your records. During an audit, we will make sure that you have charged and reported GST/HST when required, and that you are entitled to all the ITCs that you claimed on your returns.

## Notice of Assessment

If we audit your records, you will receive a preliminary statement of audit adjustments. You have 30 days to analyze and discuss the adjustments with the auditor, and make any representations. After that period, we will issue a *Notice of Assessment*.

An assessment is valid and binding. However, if you do not agree with the assessment, you can file Form GST159, *Notice of Objection (GST/HST)*, no later than 90 days after the date we sent you the *Notice of Assessment*.

## Other returns and forms

There are special tax returns for purchasers who have to pay GST/HST in certain circumstances. For example, Form GST60, *GST/HST Return for Acquisition of Real Property* is used for certain acquisitions of real property. For more information on Form GST60, see "Purchases" on page 35.

Special forms are available for GST/HST rebates. There are also a variety of election and application forms to complete if you want to adapt the administrative requirements of GST/HST to your particular business operation. See Appendix 2 for a list of election and application forms.

## Harmonized sales tax (HST)

Three participating provinces – Nova Scotia, New Brunswick, and Newfoundland and Labrador – harmonized their provincial sales tax with GST to create HST.

HST has the same basic operating rules as GST and applies at a single rate of 15% on the same base of goods and services that are taxable at 7% under GST. Therefore, the previous sections on GST also apply to HST. This section covers specific issues related to HST.

## HST registration

Businesses that are registered for GST are also registered for HST. GST/HST registrants have to collect and remit 15% HST on any taxable (other than zero-rated) supplies they make in the participating provinces. Similarly, registrants engaged in commercial activities anywhere in

Canada that buy goods and services in participating provinces that are taxed at 15% HST are entitled to claim an ITC for the HST payable.

### Note

All GST/HST registrants continue to collect 7% GST on taxable (other than zero-rated) supplies of goods and services that are made in Canada, but outside the participating provinces.

## Tax on goods and services made in participating provinces – place of supply rules

Specific rules apply to determine whether a supply is made in or outside a participating province. The following pages explain the place of supply rules for various types of goods and services.

### Note

Sometimes, we refer to the **place of negotiation** to determine the place of supply. This is the location of the supplier's permanent establishment, where an individual (such as an employee, partner, officer, or other representative of the supplier) principally involved in negotiating the agreement for the supplier ordinarily works or reports.

## Goods

### Sales

You sell goods in a participating province if:

- you deliver or make the goods available to the customer in that province;
- you ship the goods to that province or transfer them to a common carrier that you retain on behalf of the customer to ship the goods to that province; or
- you send the goods by courier or mail to an address in that province.

### Example

A bank orders cheques to be delivered by the supplier directly to its branches across Canada, including the three participating provinces. The 15% HST applies to the cheques delivered to the branches in the participating provinces. The 7% GST applies to cheques delivered to the branches in the rest of Canada.

## Rentals and leases – three months or less

When you rent or lease goods and the customer has continuous possession or use of the property for **three months or less**, all rent or lease payments are made in a participating province when:

- you deliver or make the goods available to the customer in that province;
- you ship the goods to that province or transfer them to a common carrier that you retain on behalf of the customer to ship the goods to that province; or
- you send the goods by mail or courier to that province.

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### Example

You rent a video camera in Truro, Nova Scotia, to use while traveling through several provinces. The rental agreement is for two weeks. Nova Scotia is the place of supply, and 15% HST applies on the rental.

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### Rentals and leases – more than three months

When you rent or lease goods (other than most motor vehicles) for a period of **more than three months**, the agreement is treated as a series of separate supplies for each period (i.e. lease interval) to which a particular payment is attributable.

We consider each lease interval to be made in the province where the good is ordinarily located as indicated at the beginning of each lease interval.

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### Example

A national leasing company leases a photocopier for a four-year period to a consulting firm operating in New Brunswick. The photocopier is usually stored and maintained at the firm's office in New Brunswick. During the second lease interval, the firm expands its operations to Ontario and relocates the photocopier to the firm's new office in Ontario. In this case, the payment for the first two lease intervals is subject to HST at 15% and the third lease interval is subject to GST at 7%.

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### Note

See "Rules for motor vehicles" on page 27 for information on sales, rentals, or leases of motor vehicles that have to be registered in a particular province.

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### Services

Generally, when you provide a service that is performed at least 90% in a province, we consider the service to be provided in that province.

When you provide a service partly in and partly outside Canada, we consider it to be provided in Canada. For HST purposes, a service is made in a participating province if the portion of the service that is performed in Canada is performed at least 90% in that province.

A special place of supply rule applies when a service is performed in two or more provinces and at least 90% of the service is not performed in any one province. The service is provided in the province where the negotiation took place, as long as more than 10% of the service is performed in that province. Therefore, if the place of negotiation is located in a participating province, HST applies on the service.

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### Example

An accounting firm in Halifax, Nova Scotia, is hired to audit a company with its headquarters in Halifax and offices in Ontario, Quebec, and New Brunswick. The agreement is negotiated with one of the firm's partners working out of the Halifax office. The audit is performed 60% in the Nova Scotia office. The remaining 40% is evenly distributed between the other three provinces. HST at 15% applies on this service, since the place of negotiation is in a

participating province and more than 10% of the service is performed in that province.

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### Note

Other rules apply to determine the place of supply if you are not in one of the situations described above. In this case, call us or see Technical Information Bulletin B-078, *Place of Supply Rules Under the HST*. This bulletin also gives the place of supply rules for transportation, postage, and telecommunication services.

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### Real property and services related to real property

Generally, a sale of real property is made in a participating province if the property is situated entirely in that province.

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### Example

The sale of a warehouse situated in Goose Bay, Newfoundland and Labrador, is subject to 15% HST.

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A service related to real property is made in a participating province if at least 90% of the real property is situated in that province.

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### Example

A service of painting a warehouse in Goose Bay, Newfoundland and Labrador, is subject to 15% HST.

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Special rules apply for real property situated partly in and partly outside a participating province. For more information, see Technical Information Bulletin B-078, *Place of Supply Rules Under the HST*.

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### Intangible personal property

In general, a supply of intangible personal property such as franchise rights is made in a participating province if:

- in the case of Canadian rights (rights that can be used in Canada), at least 90% of the rights that may be used or exercised in Canada can be used only in that province;
  - where the intangible property relates to real property, at least 90% of the real property in Canada is situated in that province;
  - where the intangible property relates to goods, at least 90% of the goods ordinarily located in Canada are in that province; or
  - where the intangible property relates to services, at least 90% of the services to be performed in Canada are to be performed in that province.
- 

### Example

The sale of a franchise to operate a retail establishment and sell the franchiser's product in Sydney, Nova Scotia, is subject to 15% HST.

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See Technical Information Bulletin B-078, *Place of Supply Rules Under the HST*, if the intangible property is for use less than 90% in a participating province.

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## Rules for motor vehicles

### Sales

The general place of supply rules described on page 25 for sales of goods apply to sales of new and used motor vehicles by registrants. Therefore, HST applies to new or used vehicles sold by registrants when the sale is made in a participating province.

If you buy a motor vehicle from a registrant in a non-participating province and the registrant collects 7% GST and you bring the vehicle into a participating province, you have to pay the 8% provincial part of HST when you register the vehicle at a provincial licensing office in a participating province.

Similarly, if you buy a motor vehicle outside Canada, and you bring the vehicle into a participating province, GST at 7% is collected at the border by the Canadian customs office. You pay the 8% provincial part of HST when you register the vehicle in that province.

On the other hand, if you buy a motor vehicle from a non-registrant in a non-participating province and the sale is not taxable, and you bring the vehicle into a participating province, you have to pay a special provincial levy (currently 15%) when you register the vehicle in the participating province. Similarly, if you buy a motor vehicle under these circumstances in a participating province, you will have to pay the 15% provincial levy when you register the vehicle in that province. For more information, see the pamphlet called *Harmonized Sales Tax and the Provincial Motor Vehicle Tax*.

### Note

You cannot recover the 15% provincial levy as an ITC, even if the vehicle is used in your commercial activities.

### Rentals

The general place of supply rules described on page 25 for a rental of goods for **three months or less** also apply to rentals of motor vehicles.

### Leases

A lease of a motor vehicle for **more than three months** is treated as a series of separate supplies for each “lease interval” for which a lease payment is required. A lease of a motor vehicle required to be registered in a province is made in a participating province if, at the beginning of the lease interval, the vehicle has to be registered in that province.

### Example

A car-leasing company in Ontario leases you a car for 24 months with monthly lease payments. You register the vehicle in Newfoundland and Labrador. Each of the lease payments is subject to HST if the car stays registered in Newfoundland and Labrador at the beginning of each lease interval, for example, each month. If, in the middle of the 18th month, you move to Ontario, the six remaining monthly lease payments are subject to 7% GST.

## Tax on goods and services brought into a participating province

You may have to self-assess the 8% provincial part of HST if you buy goods or services in a non-participating province, but you use, consume, or supply them within the participating provinces. This rule applies in the following situations:

- a person in a participating province buys goods in a non-participating province and brings these goods into the participating provinces;
- a resident in a participating province arranges for a person in a non-participating province to perform a service (such as advertising or legal services) that is rendered outside the participating province but consumed, used, or supplied more than 50% in the participating provinces;
- a resident in a participating province acquires intangible property (such as rights to operate a franchise) in a non-participating province that is consumed, used, or supplied more than 50% in the participating provinces.

### Exception

You do not have to self-assess the provincial part of HST if you are a registrant and the property or service is consumed, used, or supplied at least 90% in your commercial activities.

The above exception does not apply to motor vehicles required to be registered in a province. See this page for more details. This exception also does not apply to persons using a streamlined accounting method or to listed financial institutions that have to use the attribution method to determine their net tax remittance.

The following explains in more detail when you may have to self-assess the provincial part of HST for purchases of goods, services, and intangible property.

### Goods

You have to self-assess the 8% part of HST when you buy taxable (other than zero-rated) goods in a non-participating province and you later bring, or cause someone else to bring, the goods into a participating province **if you consume, use, or supply the goods less than 90% in your commercial activities**.

If you purchased the goods (other than a motor vehicle) from someone with whom you are dealing at arm’s length, you have to remit the 8% provincial part of HST on the lesser of the following amounts:

- the amount paid or payable for the goods; and
- the fair market value of the goods when they are brought into a participating province.

If you purchased goods (other than a motor vehicle) from someone with whom you are not dealing at arm’s length, you have to remit the 8% provincial part of HST on the fair market value of the goods when they are brought into a participating province.

The tax is payable when the goods are brought into a participating province. Enter this amount on **line 405** of your GST/HST return. You may be entitled to claim an ITC

for the tax you self-assess on the good depending on the percentage of use in your commercial activities. For more details on claiming ITCs, see page 13.

### Example

You are a registrant located in Newfoundland and Labrador. You buy a \$2,000 computer in Alberta, which you bring back to Newfoundland and Labrador. At that moment, the fair market value of the computer is \$2,000. You use the computer 40% in your business. You have to self-assess the 8% provincial part of HST and remit \$160 ( $\$2,000 \times 8\%$ ). You cannot claim an ITC for this tax since you are using the computer 50% or less in your commercial activities.

### Motor vehicles

For motor vehicles that require registration under the laws of a participating province, the tax is payable to the Receiver General, but collected by the provincial licensing authorities on the earlier of:

- the day you register the vehicle in the participating province; or
- the day on or before which you have to register the vehicle.

For more information on motor vehicles, see “Rules for motor vehicles” on page 27.

### Services and intangible property

You have to self-assess the 8% provincial part of HST if you are a resident of a participating province and you acquire taxable services or intangible property (other than zero-rated) in a non-participating province that you use, consume, or supply more than 50% in the participating provinces.

#### Note

You do not have to self-assess the 8% provincial part of HST when, as a registrant, you purchased the property or service to use 90% or more in your commercial activities. You also do not have to self-assess the 8% part of HST on transportation and telecommunication services, certain legal services, or where the service is for goods that are removed from the participating province as soon as the service has been performed.

The amount of tax to be self-assessed is determined by the formula:

$$A \times B \times C$$

**A** is 8% (the provincial part of HST);

**B** is the value for the service or property that is paid or payable at that time; and

**C** is the extent (expressed as a percentage) to which you consume, use, or supply the service or property in a participating province.

The tax is payable when the payment for the service or intangible property is paid or becomes due. Enter the amount on **line 405** of your GST/HST return. You can also claim an ITC for the tax you self-assessed on these services

and intangible property to the extent that they are consumed, used, or supplied in your commercial activities.

### Example

You are a registrant who lives in Nova Scotia. You operate two retail stores, one in Nova Scotia and one in Prince Edward Island (P.E.I.). You buy accounting services from FML Accounting Ltd., located in P.E.I., for a yearly fee of \$1,500 + \$105 GST. You negotiate the agreement in P.E.I. Though the place of supply is in P.E.I., the accounting firm will perform 55% of the services at your store in Nova Scotia, 25% at your store in P.E.I., and 20% for your personal records in Nova Scotia. You have to self-assess the 8% provincial part of HST for the services used in the participating province (business and personal) in the amount of \$90 ( $8\% \times \$1,500 \times 75\%$ ). In addition to your regular ITCs, an ITC in the amount of \$66 may also be claimed:

$$\$90 \times \frac{55}{75}$$

## Coin-operated machines

All food and beverages you sell through vending machines are taxable at either 7% GST or 15% HST. This includes products such as milk and fruits that are usually zero-rated basic groceries. Services provided by coin-operated machines are also generally taxable at 7% GST or 15% HST.

As the price of these goods and services includes GST/HST, the GST collected on these sales is equal to 7/107 and the HST is equal to 15/115ths of the money you collect from the coin-operated machine. We consider you to have collected GST/HST when you remove the money from the coin-operated machine.

### Example

You collect \$100 from your coin-operated machine in Ontario. Multiply that amount by 7/107 to determine the GST collected:

$$\$100 \times 7/107 = \$6.54 \text{ GST}$$

However, GST/HST is equal to zero on a supply of a good or service made through a coin-operated machine if it is designed to accept only a single coin of 25¢ or less as the total amount payable for the good or service. This rule does not apply to machines that accept coins of more than 25¢ (such as \$1 or \$2 coins) and machines that accept more than one coin as the amount payable for the good or service. For example, if you sell a lollipop in a vending machine for 25¢, and the vending machine only accepts one 25¢ coin, the GST/HST is equal to zero.

#### Note

The right to use a coin-operated washing machine and clothes dryer located in a common area of a residential building is exempt from GST/HST.

# Coupons, rebates, gifts, and promotional allowances

## Reimbursable coupons

Reimbursable coupons are usually called “manufacturers’ coupons”. Their value includes GST/HST, and they entitle the customer to a reduction of a **fixed dollar amount** on the purchase price of taxable supplies. Vendors can expect to be reimbursed by a third party (e.g. the manufacturer) for accepting these coupons from customers.

As a vendor, you treat reimbursable coupons the same as cash. If the purchase is subject to tax, you charge GST/HST on the full price of the item and then deduct the value of the coupon. We consider you to have collected a portion of the GST/HST equal to the tax fraction of the value of the coupon. For instance, a coupon for \$1.00 off the selling price includes 7¢ GST ( $\$1.00 \times 7/107$ ) or 13¢ HST ( $\$1.00 \times 15/115$ ). The manufacturer reimburses you for the coupon value of \$1.00, which includes 7¢ GST or 13¢ HST.

### Example

You operate a pharmacy in Ontario. A customer buys shampoo for \$10.00 and has a reimbursable coupon for \$1.00. You charge and remit 70¢ GST and get \$1.00 reimbursed by the manufacturer, which includes 7¢ GST. Your invoice would show:

Price of the shampoo .....	\$10.00
GST ( $\$10.00 \times 7\%$ ) .....	<u>.70</u>
Subtotal .....	\$10.70
Less coupon .....	<u>(1.00)</u>
<b>Customer pays</b> .....	<b><u>\$ 9.70</u></b>

As a GST/HST registrant, if you use coupons to make business purchases, you could claim an ITC equal to the total GST/HST paid on the purchases less the tax fraction of the coupon value. If we refer to the example above, you can claim an ITC of 63¢:

$$[70¢ - (\$1.00 \times 7/107)]$$

If you are the manufacturer, you can also claim an ITC (other than for zero-rated supplies) for the tax fraction of the coupon value. However, the vendor who accepts the reimbursable coupons from the customer cannot claim any ITCs for these coupons since you reimburse the vendor the tax.

## Non-reimbursable coupons

These are coupons that you, as the vendor, issue and accept, and for which no one reimburses you. They entitle the customer to a reduction on the price for a **fixed dollar amount or percentage amount**. As the issuer, you can either include a reduction of GST/HST in the face value of these coupons, or reduce the purchase price of the good or service.

If you choose to include GST/HST in the value of the coupons, you treat them the same way as reimbursable coupons explained above. This means that you charge and remit GST/HST on the full price of the good or service.

Since these coupons are non-reimbursable, you can claim an ITC for the tax fraction of the coupon value (7/107 for GST, or 15/115 for HST).

If you choose not to include GST/HST in the value of your coupons, deduct the coupon value from the selling price before calculating GST/HST.

### Example

A client buys an item in your store. He gives you a non-reimbursable coupon that does not include GST. You calculate the tax as follows:

Price of the item.....	\$25.00
Less coupon value.....	<u>(5.00)</u>
Subtotal.....	\$20.00
GST ( $\$20 \times 7\%$ ).....	<u>1.40</u>
<b>Customer pays</b> .....	<b><u>\$21.40</u></b>

In this case, when you file your GST/HST return, report the GST/HST you charged on your sale after you deducted the coupon from the purchase price (\$1.40 GST in the above example). You cannot claim any ITCs for coupons you issue that do not include GST/HST.

## Other coupons

Other coupons (whether reimbursable or not) that are not for one specific monetary discount may:

- offer a different percentage off the price of an item (such as 10% off the purchase of 5 or less boxes and 20% off the purchase of 6 or more);
- offer an item for no charge if another item is purchased (such as two-for-one coupons); or
- contain more than one monetary discount such as 25¢ off a 750 ml soft drink, or 50¢ off a 1.5 litre soft drink.

These coupons reduce the selling price of an item before GST/HST is added. Therefore, deduct the value of the coupons from the selling price before calculating GST/HST.

## Manufacturers’ rebates

GST/HST rules for manufacturers’ rebates apply when:

- a customer purchases 7% or 15% taxable goods or services and then claims a manufacturer’s rebate for that purchase;
- the supply of those goods or services to the customer is made either directly by the manufacturer or by another person such as a retailer; and
- the customer receives a rebate from the manufacturer for purchasing the goods or services, and is made aware in writing that the rebate includes GST/HST.

Some manufacturers include a rebate application with the goods or services they sell. After buying the item from the retailer, the customer completes the application and mails it directly to the manufacturer. Since the payment of the rebate is a separate arrangement between the manufacturer and the customer, the retailer has to remit GST/HST

collected on the full selling price of the item without deducting the value of the manufacturer's rebate.

**Example**

A customer buys a package of batteries in your hardware store in Ontario for \$10 plus 70¢ GST. Inside the package is an application to complete and mail to the manufacturer for a \$2 rebate. The manufacturer receives the application and sends the customer a cheque for \$2. You collect and remit 70¢ GST on the sale of the batteries (\$10 × 7% = 70¢).

Some manufacturers give rebates to their customers through the retailer when the customer buys the goods. Even if the retailer applies the rebate toward the retail price of the goods, the retailer collects GST/HST on the full retail price before deducting the rebate amount.

**Example**

An automobile dealership sells an automobile to a customer for \$20,000, plus \$1,400 GST. The dealer informs the customer that the manufacturer is providing a \$1,070 rebate. The customer chooses to use the rebate to reduce the payment for the automobile. The dealer charges \$1,400 GST.

Selling price .....	\$20,000
GST (\$20,000 × 7%) .....	<u>1,400</u>
Subtotal .....	\$21,400
Less rebate .....	<u>(1,070)</u>
<b>Customer pays</b> .....	<b><u>\$20,330</u></b>

Manufacturers who pay rebates may claim an ITC for GST equal to 7/107ths (or HST equal to 15/115ths) of the rebate amount in the reporting period in which they paid the rebate.

Special rules apply if the customer receiving the rebate is a registrant who is entitled to claim an ITC or a GST/HST rebate on the purchase. The manufacturer has the option of not indicating in writing that the rebate includes GST/HST. This means that the manufacturer will not claim an ITC and the customer will ignore the rebate for GST/HST purposes. Otherwise, if GST/HST is indicated as included in the rebate, the customer, if a registrant, will have to remit 7/107 of the rebate as GST or 15/115 of the rebate as HST.

**Gift certificates**

A gift certificate is generally a voucher, receipt, or ticket:

- that has a stated monetary value;
- that can be redeemed on the purchase price of a good or service from a specific supplier (you agree to accept the gift certificate as money for the purchase);
- for which money or other consideration in the amount of the certificate's face value is given to the issuer of the certificate; and
- that has no intrinsic value. For example, commemorative gold or silver coins have an intrinsic value.

You do not collect GST/HST on the sale of a gift certificate. When a customer gives you a gift certificate towards a

purchase, calculate GST/HST on the price of the item and deduct the amount of the gift certificate as if it were cash.

**Example**

You sell a taxable item for \$100, and the purchaser gives you a \$20 gift certificate toward the purchase.

Price of item .....	\$100
GST (\$100 × 7%) .....	<u>7</u>
Subtotal .....	\$107
Less gift certificate .....	<u>(20)</u>
<b>Customer pays</b> .....	<b><u>\$ 87</u></b>

**Promotional gifts and free samples**

You do not charge GST/HST on promotional gifts you give your customers or that you distribute as a bonus with another item for no additional charge. You can claim an ITC for the GST/HST you pay or owe on your purchases to supply these gifts as long as they relate to your commercial activities. For example, if the free gift is to promote an exempt service, you will not be able to claim an ITC to recover the GST/HST you paid or owe on any purchases related to that free gift.

**Promotional allowances**

Promotional allowances are amounts given by a manufacturer to a retailer who has purchased taxable goods from that manufacturer, exclusively for resale in the course of its commercial activities, for the promotion of these goods. The promotional allowance is not regarded as payment for a supply by the retailer to that manufacturer. However, there may be tax implications depending on how the allowance is paid, credited, or allowed as a discount.

**Example**

A manufacturer sells 12 cases of goods to a retailer and gives the retailer 2 free cases to promote the goods. The deduction appears on the face of the invoice, and the GST/HST applies on the reduced price.

12 cases @ \$10 .....	\$120
Less 2 free cases .....	<u>(20)</u>
Subtotal before tax .....	\$100
GST (\$100 × 7%) .....	<u>7</u>
<b>Retailer pays</b> .....	<b><u>\$107</u></b>

In this case, GST applies on \$100.

If the allowance is given as a discount or credit against the price of a previous purchase for which tax has been charged or collected, the manufacturer has a choice of either giving the credit without adjusting the tax or adjusting the tax and issuing a credit/debit note. Refer to "Returned goods" on page 38.

If the allowance is given as a discount against the goods at the time of purchase, GST/HST applies on the reduced price.

If the payment or credit is not a price reduction attributable to any invoice, it is considered to be a manufacturers'

rebate. For more information, refer to “Manufacturers’ rebates” on page 29.

## Deposits and conditional sales

### Deposits

You do not collect GST/HST when a customer gives you a deposit towards a taxable purchase. Collect GST/HST on the deposit when you apply it to the purchase price.

If the customer does not make the purchase and loses the deposit, the forfeited deposit is subject to GST/HST. If the customer is a GST/HST registrant, the customer may be entitled to claim an ITC for the GST/HST paid on the forfeited deposit. The GST collected on the forfeited deposit is equal to 7/107 of the deposit amount. HST is equal to 15/115 of the deposit amount.

#### Example

A customer gives you a deposit of \$50 towards the purchase of an item that is taxable at 7% GST, but does not pay the balance owing and forfeits the deposit. We consider you to have collected GST equal to 7/107 of the forfeited deposit. As a result, you have to include GST of \$3.27 ( $\$50 \times 7/107$ ) in your net tax calculation. If the customer is a GST/HST registrant, that person may be entitled to claim an ITC for the GST you collected on the forfeited deposit. If you are in a participating province, HST collected is equal to \$6.52 ( $\$50 \times 15/115$ ).

#### Exception

These rules do not apply to deposits for returnable containers. For more information, see “Returnable beverage containers” on page 37.

### Conditional and instalment sales

A conditional sale takes place when you transfer possession of goods to a customer, but ownership passes only after the sale meets certain conditions, such as full payment of the purchase price. In this type of sale, the customer agrees to make payments for the goods over a period of time. The customer takes possession of the goods, but you keep title or ownership of the goods until the customer has met the specified conditions.

In an instalment sale, the ownership passes immediately but the customer pays the purchase price in instalments. You transfer title or ownership and possession of the goods at the time the agreement is entered into, and the customer agrees to make payments over a period of time.

In both cases, you include the GST/HST on the entire amount in your net tax calculation for the reporting period that includes the last day of the month following the month during which you transferred possession or ownership of the goods (whichever is earlier). If you issue an invoice before this time, the customer pays GST/HST on the full invoiced amount and you have to include the tax in your net tax for the reporting period during which you issued the invoice.

## Employees and partners

### Employee benefits

You may be considered to have collected the GST/HST on supplies of non-cash taxable benefits provided to your employees. However, you are not considered to have collected the GST/HST on salaries, wages, commissions, and other cash remuneration, including gratuities, you pay to employees.

Employers who are GST/HST registrants may have to remit GST/HST on certain benefits provided to employees such as the personal use of an employer’s automobile, board and lodging, incentives, and gifts worth more than \$100. If you do, you have to calculate GST/HST for the taxable employee benefits at the end of February following the year in which you gave the benefit. This corresponds with the deadline for calculating employee benefits and issuing T4 slips for income tax purposes. You have to include the GST/HST on the benefits in the GST/HST return for the reporting period that includes the last day of February.

To find out if you have to account for the GST/HST on employee benefits, see the income tax publication called *Employers’ Guide – Taxable Benefits* (Chapter 4).

### Employee and partner GST/HST rebate

The employee and partner GST/HST rebate allows employees to recover the GST/HST they paid on eligible employment expenses. These are deducted from their employment income on their income tax return. It also allows partners to recover the GST/HST they paid on expenses they deducted from their share of the partnership income on their income tax return. Such expenses include travel, meals, professional dues, legal, and accounting fees.

If you do not provide a reasonable allowance or do not reimburse all your employees’ or partners’ expenses, or if employees have to include allowances in their income, you should tell them about the employee and partner GST/HST rebate.

Employees and partners can apply for the rebate by completing Form GST370, *Employee and Partner GST/HST Rebate Application*, and filing it with their income tax return within four years after the end of the year or a date agreed by the Minister. For more information and a copy of the form, see the guide for employees called *Employment Expenses*, and the guide for partners called *GST/HST Rebate for Partners*.

#### Exception

Employees of a listed financial institution cannot claim the employee and partner GST/HST rebate.

## Exports and imports

### Exported goods

Goods (other than excisable goods such as beer and tobacco) ordinarily taxable at 7% GST or 15% HST may be

zero-rated if they are exported from Canada. This means that you do not charge GST/HST on taxable sales if you deliver the goods or make them available to a purchaser outside Canada.

When the purchaser takes delivery of the goods in Canada, you do not charge GST/HST if the following conditions are met:

- the purchaser is not a consumer (a consumer is usually an individual who is buying the goods for his or her personal use);
- the purchaser exports the goods as is reasonable in the circumstance after you deliver them;
- the purchaser does not buy the goods to consume, use, or supply in Canada before exporting them;
- after buying the goods and before exporting them, the purchaser does not further process, transform, or alter the goods in Canada, unless it is reasonably necessary or incidental to transport them;
- you keep satisfactory evidence, for audit purposes, that the purchaser has exported the goods; and
- if the property being exported is electricity, crude oil, natural gas, or any good that can be transported by means of a wire, pipeline or other conduit, the purchaser is not registered for GST/HST purposes.

If the above conditions for zero-rating are not met, you have to charge and the purchaser has to pay GST/HST on taxable supplies. However, a non-resident purchaser can apply for a rebate to recover the tax paid on qualifying goods (other than excisable goods, wine, and gasoline) exported from Canada. To qualify for the GST/HST rebate, the non-resident purchaser has to export the goods from Canada within 60 days of delivery, as well as meet other conditions. For more information on the eligibility requirements, see the guide called *General Application for GST/HST Rebates*, which includes Form GST189, *General Application for Rebate of GST/HST*.

A purchaser (other than a consumer) who is registered for GST/HST purposes can apply for authorization to issue an export certificate, which, when provided to the supplier, will cause the goods to be zero-rated. For more information on export certificates, refer to GST/HST Memorandum 4.5.2, *Exports – Tangible Personal Property*.

## Export Distribution Centre (EDC) Program

Under the EDC program, authorized export-oriented, non-manufacturing businesses are able to use a certificate to acquire or import most inventory and parts, or import a customer's goods for processing, without payment of GST/HST. Eligible registrants who want to use the EDC certificate must apply to us for authorization. Authorizations will remain in effect for three years, unless revoked earlier, and can be renewed. For authorization to use an EDC certificate, complete and send us Form GST528, *Authorization To Use an Export Distribution Centre Certificate*. For more information on the EDC Program, refer to Technical Information Bulletin B-088, *Export Distribution Centre Program*.

## Exported services

You do not charge GST/HST on services you perform totally outside Canada, or on services that relate to real property situated outside Canada.

Services you perform on temporarily imported goods are zero-rated (except transportation services). The goods must be brought into Canada for the sole purpose of having the service performed on them and must be exported as soon as possible. Any parts supplied along with these services are also zero-rated.

Certain services provided to a non-resident person (but not to an individual while the individual is in Canada) that are performed all or partly in Canada may be zero-rated such as:

- certain advisory, professional, or consulting services;
- advertising services to an unregistered non-resident person;
- advisory, consulting, or research services to help a non-resident person establish a residence or business in Canada;
- services and parts for goods or real property under warranty for an unregistered non-resident person;
- custodial or nominee services for the non-resident person's securities or precious metals;
- training services to an unregistered non-resident person (but not to individuals) to teach non-resident individuals or to give examinations for courses leading to certificates, diplomas, licences, or similar documents, or classes or licence ratings that attest to the individual's competence or to give an exam to practise or perform a trade or vocation;
- services to an unregistered non-resident person of destroying or discarding goods, or the services of dismantling goods for the purpose of exporting them;
- services to an unregistered non-resident person of testing or inspecting goods acquired or brought into Canada for this service and the goods are to be destroyed or discarded in the course of providing the service or on its completion; and
- services of an agent acting for a non-resident person or services of arranging for, procuring, or soliciting orders for supplies by or to the person when the service relates to a zero-rated property or service, or if the supply to or by the non-resident person is made outside Canada.

For more information, see GST/HST Memorandum 4.5.3, *Export – Services and Intellectual Property*.

### Note

Remember that you can claim ITCs to recover the GST/HST you paid or owe on purchases and expenses related to your zero-rated goods and services. For more information, see "Input tax credits" on page 13.

## Imported goods

Goods you import into Canada are subject to GST at 7% or the federal part of HST (7%), except for items specified as

non-taxable importations. Examples of non-taxable importations are:

- zero-rated goods (goods that are specifically zero-rated in Canada such as prescription drugs);
- medals, trophies, and other prizes won outside Canada in competition (but not saleable goods such as an automobile);
- tourist literature imported by governments or specified organizations for public distribution free of charge;
- goods imported by a charity or public institution that have been donated to the charity or institution;
- goods imported for the sole purpose of maintenance, overhaul, or repairs, if the title or use to those goods does not pass while they are in Canada, and the goods are exported as soon after the services are completed;
- goods imported by manufacturing service companies where the goods are processed for non-residents and later exported without being used in Canada. Any parts to be used in or attached to, and materials directly consumed or expended in the processing of those goods, are also non-taxable. The manufacturing service companies must apply in writing for an import certificate to be able to import goods on a non-taxable basis. For more information on this application and the conditions that must be met, see Technical Information Bulletin B-069, *Goods and Services Tax Treatment of Imports by Exporters of Processing Services (Inward Processing)*;
- warranty replacement property and replacement parts supplied by a non-resident at no charge except for shipping and handling; and
- goods valued at \$20 or less sent to a person by mail or courier at an address in Canada, except for the following prescribed goods:
  - excisable goods (such as beer and tobacco) and wine;
  - books, newspapers, magazines, periodicals, or other similar publications, where the vendor was required to register for GST/HST, but did not do so;
  - goods bought from a retailer in Canada and mailed or transported from outside Canada directly to the purchaser.

GST/HST is calculated on the Canadian dollar value of the goods, including duty and excise tax, and is collected at the border at the same time as these duties. The owner or importer of record is responsible for paying the tax on imported goods. If you are the importer (the person who caused the goods to be imported into Canada), you can claim an ITC for the tax you paid on the imported goods, as long as you meet the requirements for claiming ITCs.

Taxable non-commercial goods imported into a participating province by a resident of such a province are subject to HST at 15% on importation, except for motor vehicles required to be registered in a participating province, or a mobile home or floating home that has been used or occupied in Canada by an individual. The provincial part of HST on imported motor vehicles is paid at the time the vehicle is registered in a participating province.

Although the provincial part of HST is not payable when you import commercial goods that are destined for the participating provinces, the goods may be subject to the self-assessment rules discussed on page 27 under the title “Tax on goods and services brought into a participating province.”

## Imported services and intangible property

If you buy services (such as architectural services for a building in Canada) or intangible property (such as the right to use a patent in Canada) from an unregistered non-resident person outside Canada, you do not pay GST or HST if you acquire them to use at least 90% in your commercial activities. You also do not have to self-assess the provincial part of HST if the imported services or intangible property are for consumption, use, or supply more than 50% in a non-participating province.

If you do not use the imported services or intangible property at least 90% in your commercial activities, you have to report GST or the federal part of HST (7%) on **line 405** of your GST/HST return and remit the tax directly to us. The tax is calculated on the amount you were charged for the service or intangible property and is payable in the reporting period in which the amount for the service or the intangible property was paid or became payable.

If you are a resident in a participating province who does not use the imported services or intangible property at least 90% in your commercial activities and the services or intangible property are for consumption, use, or supply more than 50% in the participating provinces, you also have to pay the 8% provincial part of HST on the services or intangible property. The tax you have to self-assess is payable each time an amount for the supply is paid or becomes due, and is calculated by using the formula:

$$A \times B \times C$$

**A** is the 8% provincial part of HST;

**B** is the value of the imported service or intangible property that is paid or becomes due at that time; and

**C** is the extent (expressed as a percentage) to which the person acquired the property or service for consumption, use, or supply in the provinces.

The tax is payable in the reporting period in which the amount for the services or intangible property was paid or became payable, and should be reported on **line 405** of your GST/HST return.

If the non-resident person from whom you buy the services or the intangible property is registered for GST/HST, that person will charge you GST/HST on the value of the services they perform or the intangible property used all or partly in Canada. You can claim an ITC for the GST/HST you pay on the services or intangible property as long as you imported them for consumption or use in your commercial activities.

## If you are not a registrant

If you are not registered for GST/HST, you still have to pay tax on imported services or intangible property. You use Form GST59, *GST/HST Tax Return for Imported Taxable Supplies*, to remit the tax. The tax is due by the end of the month following the calendar month in which the amount for the services or intangible property was paid or became payable.

## Financial services

Generally, financial services are exempt for GST/HST purposes. You do not charge GST/HST on most supplies of financial services. Generally, you cannot claim ITCs on purchases or acquisitions related to exempt financial services. Examples of exempt financial services include:

- the exchange, payment, issue, receipt, or transfer of money;
- the operation or maintenance of a savings, chequing, deposit, loan, charge, or other account;
- the lending and borrowing of a financial instrument, such as:
  - the right to be paid money;
  - the deposit of money;
  - any share or an interest in a share of the capital stock of a corporation;
  - an insurance policy;
  - an interest or right for an interest in a partnership or estate of a deceased individual;
  - a precious metal; and
  - an option for future supply of a commodity where the option is traded on a recognized commodity exchange;
- the payment or receipt of money as dividends, interest, principal, or benefits;
- the making of any advance, the granting of any credit, or the lending of money; and
- the payment or receipt of an amount in full or partial satisfaction of a claim arising under an insurance policy.

For more information on financial services, see GST/HST Memorandum 17.1, *Definition of "Financial Instrument,"* GST/HST Memorandum 17.2, *Products and Services of a Deposit-Taking Financial Institution*, GST/HST Memorandum 17.6, *Definition of "Listed Financial Institution,"* GST/HST Memorandum 17.8, *Credit Unions*, GST/HST Memorandum 17.10, *Tax Discounters*, and GST/HST Memorandum 17.14, *Election for Exempt Supplies*.

## Insurance claims

Generally, when an insurance company pays out benefits to compensate a claimant under the terms of an insurance policy, it is providing an exempt financial service. There are two kinds of insurance claims:

- life and health insurance claims; and
- property and casualty insurance claims.

### Life and health insurance claims

Under life and health insurance contracts, the settlement of a claim is usually limited to payment of financial benefits. These payments are financial services and exempt from GST/HST.

### Property and casualty insurance claims

Under property and casualty insurance contracts, the insurer agrees to settle a claim for loss or damage to property either by making a cash settlement with the insured, paying the cost of repairs to the damaged property, or paying the cost of replacing the damaged property.

### Cash settlements

A cash settlement is a financial service and is GST/HST exempt.

### Repairs and replacements

There are two ways an insurer can settle a loss related to damaged property:

- the insurer repairs or replaces the damaged property; or
- the insurer compensates the insured for the cost of repairing or replacing the damaged property.

#### The insurer repairs or replaces the damaged property

The insurer purchases repair services or replacement property directly. The insurer would pay GST/HST and would not be entitled to claim an ITC as the insurer would not be acquiring the property or service for consumption, use, or supply in the course of a commercial activity.

#### The insurer compensates the insured for the cost of repairing or replacing the damaged property

You, as the insured, acquire the repair services or replacement property directly, and are the recipient of the services or property. If you are a registrant, you may be eligible to claim an ITC. If you are a public service body, you may be eligible to claim a rebate. In this situation, it may be appropriate for the insurer to use the net-of-GST/HST method for settling the property and casualty insurance claim.

The **net-of-GST/HST method** ensures that an insurer is required to make payment for an insurance claim only to the extent of the actual loss suffered by the insured in accordance with the terms of the insurance policy. The amount paid by an insurer to you will be reduced by the amount that you are eligible to claim as an ITC or rebate related to the tax portion of the repair or replacement expense.

For more information on insurance-related subjects, see GST/HST Memorandum 17.9, *Insurance Agents and Brokers*. For more information on insurance claims, see GST/HST Memorandum 17.16, *GST/HST Treatment of Insurance Claims*.

### Example

You are a GST/HST registrant who uses a car exclusively in the course of your commercial activities. You are involved in an accident. You arrange to have the repairs done at the dealership for \$5,000 plus \$350 GST. Under the car insurance policy, there is a \$500 deductible. You make a cheque payable to the dealership and claim \$350 in tax payable as an ITC. You forward a copy of the invoice to your insurer and asks for compensation less the tax portion. The insurer pays you the following:

Total of invoice.....	\$5,350
Less GST (\$5,000 × 7%) .....	350
Less deductible.....	<u>500</u>
Total compensation from insurer .....	\$4,500

## Real property

Supplies of real property are generally taxable. There are some specific supplies of real property that are **exempt** of the GST/HST. Some examples include:

- the sale of a used house, where the seller is not the builder of the house and has not claimed any ITCs for the acquisition of the used house;
- the sale of farmland by an individual to a related individual where the farmland was used in a commercial activity that is **only** the business of farming and the related individual is purchasing the farmland for personal use and enjoyment;
- the lease of a residential complex to an individual who occupies it for a continuous period of at least one month;
- the lease of a residential complex to an individual who occupies it for \$20 or less a day.

For more information on other exempt supplies of real property, see GST/HST Memoranda Series, Chapter 19, *Special Sectors: Real Property*.

### Sales

As a vendor, whether or not you are registered for GST/HST, you have to collect GST/HST from the purchaser on a taxable supply of real property **unless**:

- you are a non-resident of Canada (even if you have a permanent establishment in Canada);

- the purchaser is registered for GST/HST and is not an individual buying a residential complex or cemetery plot; or
- you and the purchaser have made an election using election type 2 on Form GST22, *Real Property – Election to Make Certain Sales Taxable*.

Under these conditions, the purchaser of real property has to remit the GST/HST owing directly to us. For more details, see “Purchases” below.

### Purchases

If you buy taxable real property and the vendor does not have to collect GST/HST from you because of the conditions above, you have to remit GST/HST owing on either your GST/HST return or by filing Form GST60, *GST/HST Return for Acquisition of Real Property*.

If you are a registrant who intends to use the real property more than 50% in commercial activities, report the GST/HST owing on the purchase on **line 205** of your GST/HST return in the reporting period in which the tax becomes payable.

In all other cases, you have to remit GST/HST owing by filing Form GST60. You have to file this form by the end of the month after the month when you bought or took possession of the property, regardless of when your GST/HST return is due.

If you use the real property more than 10% in commercial activities, you can claim an ITC on **line 106** of your return. See the chart entitled “ITCs for capital real property” on page 37 to calculate the ITC you can claim.

### Claiming ITCs

Generally, you can claim an ITC equal to either a percentage or the entire amount of GST/HST you paid or owe on purchases of real property (including improvements to real property) that you intend to use in your commercial activities. There are four sets of rules for ITCs on real property, depending on whether you are:

- a corporation or partnership;
- an individual;
- a public service body; or
- a financial institution.

### Corporations and partnerships

The rules for claiming ITCs on real property are as follows:

- If the commercial use is 10% or less, you cannot claim ITCs.
- If the commercial use is more than 10% and less than 90%, you have to apportion your ITCs based on the percentage of use in commercial activities.
- If the commercial use is 90% or more, you can claim a full ITC.

#### Note

These rules do not apply to a corporation or partnership that is a financial institution.

### Example

You buy a building in Manitoba and intend to use it 60% in your commercial activity. You can claim an ITC for 60% of the GST you paid.

Cost of building .....	\$500,000
GST payable .....	35,000
ITC = \$35,000 × 60% .....	\$21,000

### Change in use rules

These rules apply to corporations and partnerships that are registrants. They do not apply to public service bodies.

If you increase the commercial use of real property, you may be able to claim an additional ITC for the GST/HST that you were not entitled to claim before. If you decrease the commercial use of real property, you may have to repay part of the ITC you claimed before. The calculations are based on the basic tax content of the property at that time. The basic tax content formula is explained on page 17.

### Increasing commercial use

When you increase the percentage of commercial use of real property by 10% or more, you may be able to claim an ITC equal to the **basic tax content** of the property multiplied by the percentage of increase in commercial use.

### Example 1

You buy an office building in Winnipeg to use 60% in your commercial activities.

Cost of building .....	\$500,000
GST .....	35,000
ITC = \$35,000 × 60% .....	\$21,000

Later, you increase the commercial use of the building from 60% to 80% (an increase of 20%). The fair market value of the building at the time of the change was \$450,000.

As a result of the increased commercial use of the building, you can claim an additional ITC calculated as follows:

$$\begin{aligned} \text{Basic tax content} &= (A - B) \times C \\ &= (\$35,000 - \$0) \times \frac{\$450,000}{\$500,000} \\ &= \$31,500 \\ \text{ITC} &= \$31,500 \times 20\% \\ &= \$6,300 \end{aligned}$$

### Note

If you increase the commercial use to 90% or more, we consider that you are using the property 100% in commercial activities.

### Decreasing commercial use

When you decrease (without stopping) the commercial use of real property by 10% or more, we consider you to have **sold** the real property to that extent, and to have collected GST/HST on the part of the property that you are no longer using for commercial activities. The amount of GST/HST you have to remit, if any, is equal to the basic tax content of the property at that time multiplied by the percentage of decrease in commercial activities.

### Example 2

You buy an office building in Winnipeg to use 60% in your commercial activities.

Cost of building .....	\$500,000
GST .....	35,000
ITC = \$35,000 × 60% .....	\$21,000

Later, you decrease the use in commercial activities of the building from 60% to 30% (a decrease of 30%). The fair market value of the property at the time of change is \$550,000.

You remit GST calculated as follows:

$$\begin{aligned} \text{Basic tax content} &= (A - B) \times C \\ &= (\$35,000 - \$0) \times \frac{\$550,000}{\$500,000} \\ &= (\$35,000 - \$0) \times 1 \text{ (maximum)} \\ &= \$35,000 \\ \text{GST payable} &= \$35,000 \times 30\% \\ &= \$10,500 \end{aligned}$$

### Stopping commercial use

When you stop using real property for commercial activities, or when you reduce the commercial use to less than 10% (except for financial institutions) and begin to use the property more than 90% for non-commercial activities, we consider you to have sold and reacquired the property. If the deemed supply is taxable, you will have to remit the GST/HST using the basic tax content of the property at the time of the change in use.

### Example 3

We continue with example 2 above. The building was used 30% in commercial activities and is now used less than 10%. The fair market value at the time of change in use is still \$550,000. The deemed supply is taxable.

You would remit GST calculated as follows:

$$\begin{aligned} \text{Basic tax content} &= (A - B) \times C \\ &= (\$35,000 - \$0) \times \frac{\$550,000}{\$500,000} \\ &= \$35,000 \times 1 \text{ (maximum)} \\ &= \$35,000 \\ \text{GST payable} &= \$35,000 \times 30\% \\ &= \$10,500 \end{aligned}$$

You have now remitted the same amount in GST/HST as you had originally claimed as an ITC (\$21,000), since you are using the building less than 10% in commercial activities.

### Individuals

If you use real property more than 50% for your personal use and enjoyment, you cannot claim an ITC for the GST/HST you paid or owe on that property.

### Example

You buy a house and intend to use it 40% as a retail store, and 60% as your residence. You cannot claim an ITC for the GST/HST you paid for the house or on any improvements you made to it.

The change in use rules for individuals may be different from the ones explained above for corporations and partnerships. The calculations are also based on the basic tax content of the property at the time of the change. For more information, see to GST/HST Memorandum 19.2.3, *Residential Real Property – Deemed Supplies*.

### Public service bodies

For information on the rules that apply to public service bodies that buy real property, see the following guides:

- *GST/HST Information for Municipalities;*
- *GST/HST Information for Non-Profit Organizations;* and
- *GST/HST Information for Charities.*

### Financial institutions

Financial institutions must apportion their ITCs on the percentage of use in commercial activities, regardless of whether the property is used 10% or less (or more than 90%) in commercial activities.

#### ITCs for capital real property

Percentage of use in commercial activities	Partnerships and corporations	Individuals	Public service bodies	Financial institutions
≤ 10%	None	None	None	% of use
> 10% to 50%	% of use	% of use*	None	% of use
> 50% to < 90%	% of use	% of use	100%	% of use
≥ 90%	100%	100%	100%	% of use

\*Individuals cannot claim an ITC if the property is used more than 50% for their personal use or that of a related individual.

## Returns and warranties

### Returnable beverage containers

There is no GST/HST on deposits for returnable beverage containers that are refundable to consumers.

When a bottler or manufacturer sells beverages in sealed returnable containers to you, GST/HST is not charged on the refundable deposit. When you sell the beverages in the sealed containers to your customer, you do not charge GST/HST on the refundable deposit.

When you accept used and empty containers from customers, no part of the refund to the consumer is a refund of tax and, therefore, you would not claim an ITC for that refund. When you return used containers to a depot or a bottler, there is no GST/HST charged on the refund you receive.

#### Example

Sale of a beverage in a returnable container, with a fully refundable deposit, in a non-participating province (e.g. retailer to consumer)

Beverage.....	\$1.00
Deposit .....	<u>0.15</u>
Subtotal .....	\$1.15
GST (\$1.00 x 7%) .....	<u>0.07</u>
Total.....	\$1.22

In some provinces, only a portion of the deposit is refundable to the consumer, or non-refundable amounts such as environmental levies and recycling fees are separately charged in addition to the refundable deposit. In these cases, you only exclude the GST/HST from the amount of the deposit refundable to the consumer.

The non-refundable amounts are subject to GST/HST at the same rate as the beverage.

#### Example

Sale of a beverage in a returnable container, with a fully refundable deposit and non-refundable recycling fee, in a non-participating province (e.g. retailer to consumer)

Beverage .....	\$1.00
Deposit.....	0.15
Container recycling fee.....	<u>0.10</u>
Subtotal.....	\$1.25
GST (\$1.10 x 7%).....	<u>0.08</u>
Total .....	\$1.33

You collect and remit the tax on the non-refundable amounts when you sell beverages, and claim ITCs for the tax on the non-refundable amounts when you purchase beverages, unless you are located in a participating province.

Special rules apply in the participating provinces where the deposits include tax, if applicable, and only part of the deposit on certain beverage containers is refundable. A bottler or manufacturer sells the beverages to you, and

charges the deposit. The bottler or manufacturer remits to us the HST included in the deposit. You do not claim an ITC for the HST included in the deposit. When you sell the beverages and containers to your customer, you do not remit the HST included in the deposit.

**Example**

Sale of a beverage in a returnable container, with a deposit that is half refunded, in a participating province (e.g. retailer to consumer)

Beverage.....	\$1.00
Deposit (includes HST).....	<u>0.10</u>
Subtotal .....	\$1.10
HST (\$1.00 x 15%) .....	<u>0.15</u>
Total.....	\$1.25

Certain registrants, such as take-out establishments that provide eating areas on their premises, may charge tax on the refundable deposit. If you are such a registrant, and you do not charge tax on the refundable deposit, you will have to pay an amount equal to the tax on the refundable deposit when you collect the empty containers from your premises and redeem them for the refunds. See Technical Information Bulletin B-089, *Returnable Containers*, for more information.

**Returnable containers**

GST/HST generally applies to empty returnable containers. However, we consider usual packaging or containers (other than returnable beverage containers) to be part of the goods they cover or contain and tax them on the same basis as the goods they hold. For example, containers filled with medical oxygen are zero-rated.

When a customer returns a container that held goods, you may treat the transaction in one of two ways, depending on the terms of the original agreement as:

- a **sale** by the customer to you (the original supplier); or
- a **refund** you pay to the customer.

If the return of the container is treated as a **sale**, the customer, if a registrant, charges you GST/HST on the return of the container. You can claim an ITC for the GST/HST payable on the purchase of the container.

If the return is treated as a **refund**, you have to issue a credit note to the customer or, alternatively, the customer has to give you a debit note. In that case, see the next section "Returned goods."

For more details, see Technical Information Bulletin B-038, *GST Administrative Policy-Returnable Containers*.

**Returned goods**

If you give customers a refund or credit for all or part of an amount they paid or were charged for goods they return, you may adjust, refund, or credit the customer the GST/HST you first charged or collected on these goods. If you do this, you have to issue a credit note to the customer, or have the customer issue a debit note to you.

Be sure the following information is included on the credit or debit note:

- a statement or other indication that the document is a credit or debit note;
- your business or trading name, or the name of your intermediary, and your Business Number (BN), or the number of intermediary;
- the customer's name or trading name, or the name of the customer's authorized agent or representative;

and either

- the amount of the adjustment, refund, or credit for tax; or
- a statement that the total amount for which the note is issued includes the adjustment, refund or credit of tax, the tax rate (i.e. 7% GST or 15% HST) that applies to each taxable supply for which tax is reduced, and either the total amount and tax reduced for all the supplies to which the same tax rate applies or the total amount and tax reduced for each supply.

You can deduct the amount of GST/HST adjusted, refunded, or credited in determining your net tax for the reporting period in which you issued the credit note or received the debit note, as long as that amount was previously included in your net tax. In turn, if your customer claimed an ITC, he or she will add that amount in calculating his or her net tax. If your customer claimed a rebate, he or she will repay that amount.

You have four years from the end of the reporting period during which you reduced the purchase price to make the adjustment, refund, or credit.

If you refund only a certain percentage of the purchase price (for example, 85%) and keep the balance as a restocking charge, you will refund only 85% of the GST/HST you first collected. You would issue a credit note, or the customer would issue a debit note, for the amount of GST/HST you refunded.

If you and the customer are GST/HST registrants, you can choose not to refund or credit the customer the GST/HST that was previously paid. You may wish to forgo the GST/HST refund if you have already remitted the tax and the customer has already claimed an ITC. In this case, you refund the amount without including the GST/HST that the customer first paid. You and your customer do not have to make any adjustments on your GST/HST returns.

**Warranty reimbursements**

Warrantors of goods can claim ITCs for the GST/HST portion of reimbursements they make to warranty holders for goods or services such as repairs covered under the terms of a warranty and provided by a third party.

For instance, a warrantor may reimburse a warranty holder when the warranty holder pays for repairs due to an emergency or due to the distance from the warrantor's own authorized repair facility.

The ITC you can claim is based on the portion of the total cost that you reimburse the warranty holder. Calculate your ITC using the formula:

$$A \times \frac{B}{C}$$

**A** is the GST/HST payable by the warranty holder for the goods or services;

**B** is the amount of the reimbursement;

**C** is the cost to the warranty holder of the repair.

You must include with the reimbursement a written statement that a portion of the reimbursement represents GST/HST.

### Example 1

Michael, a GST/HST-registered sales person, uses his car to meet clients. His car breaks down and he calls for emergency roadside assistance, which is covered under warranty. There is no dealer nearby, and the only repair shop within towing distance is an independent garage. The garage tows and repairs the car for a total of \$642 (\$500 plus \$100 for remote service charge, plus \$42 GST). Michael sends this bill to the warrantor who agrees to pay the bill except for the remote service charge. There is a \$50 deductible plus GST under the warranty. The warrantor reimburses Michael \$481.50 calculated as follows:

Total paid by Michael .....	\$642.00
Less \$100 remote service charge plus \$7 GST .....	(107.00)
Less \$50 deductible plus \$3.50 GST.....	<u>(53.50)</u>
<b>Amount reimbursed to Michael.....</b>	<b><u>\$481.50</u></b>

Using the formula above, the warrantor can claim an ITC of \$31.50 calculated as follows:

$$\begin{aligned} \text{ITC} &= \$42.00 \times \frac{\$481.50}{\$642.00} \\ &= \$31.50 \end{aligned}$$

A warranty holder who is registered for GST/HST can claim an ITC or a rebate. If the warranty holder claims an ITC or rebate and is later reimbursed by the warrantor, the warranty holder has to repay the ITC or rebate for the portion that he or she was entitled to claim. The warrantor holder remits an amount calculated using the following formula:

$$A \times \frac{B}{C}$$

**A** is the GST/HST reimbursed;

**B** is the total of ITCs and rebates that the warranty holder was entitled to claim for the goods or services;

**C** is the GST/HST the warranty holder paid or owes for the goods or services.

### Example 2

If Michael uses his car 80% in commercial activities, he is eligible for an ITC of \$33.60 (\$42 × 80%) for the car repair charges described in example 1. If he claimed this ITC and is later reimbursed by the warrantor, Michael has to repay \$25.20 by adding this amount to **line 103** of his GST/HST return for the reporting period in which he received the reimbursement.

$$\begin{aligned} \text{GST to remit} &= \$31.50 \times \frac{\$33.60}{\$42.00} \\ &= \$25.20 \end{aligned}$$

## Selling goods for others

### Consignment sales

A consignment sale is a purchase and resale transaction in which one party, the consignor, delivers goods to a second party, the consignee, who tries to sell the goods for the consignor.

If you, as a consignee, sell taxable goods on consignment or a similar arrangement, the consignor keeps ownership of the goods until you sell them. Even though the consigned goods are in your possession, you do not include these items in your inventory because the consignor still has legal title to the goods.

We consider two transactions to take place at the time you sell the goods: you buy the goods from the consignor and sell the goods to your customer. If the consignor is a GST/HST registrant, you pay GST/HST to the consignor on the price he or she charges you and collect GST/HST from your customer on your selling price. If the consignor is not a registrant, you do not pay GST/HST to the consignor, and you collect GST/HST from your customer on your selling price.

### Example

You sell clothing on consignment to a customer for \$100 plus \$7 GST, which you include on your GST/HST return. You keep \$40 and pay the consignor \$60 from the sale. If the consignor is a GST/HST registrant, he or she charges you \$4.20 GST (\$60 × 7%), which you can claim as an ITC on your return. If the consignor is not a registrant, he or she does not charge you GST.

When you return any unsold items to the consignor, you do not have to pay GST/HST on these items since the consignor never sold you the goods.

Special rules apply if you are not buying and reselling. See the following section “Agents” if you are simply facilitating a transaction as an agent.

### Agents

If you are acting as an agent (excluding auctioneers) in selling taxable goods and services on behalf of a person (vendor), different rules apply to determine who has to charge GST/HST on the sale.

## When the vendor has to charge GST/HST

When the vendor has to charge GST/HST on the supply of taxable goods and services, we consider the vendor to have made the supply of the goods or services to the purchaser, and the agent to have provided his services to the vendor. Therefore, the **vendor** is responsible for collecting, reporting, and remitting the GST/HST that applies to the supply.

If a registrant, the agent has to charge and remit GST/HST on his commission and other services provided to the vendor that relate to the supply. In turn, vendors who are registrants may be eligible to claim an ITC to recover the GST/HST they pay for the agent's services.

### Example

Daniel, a registered vendor, gives a painting to an art gallery (agent) in Alberta to sell on his behalf. The art gallery sells the painting for \$2,000 plus \$140 GST.

Transaction summary	
<b>Sale by vendor through agent</b>	
Painting .....	\$2,000.00
GST (\$2,000 × 7%) .....	140.00
Amount purchaser pays .....	<u>\$2,140.00</u>
<b>Amount agent charges vendor</b>	
Commission .....	\$400.00
Advertising .....	50.00
Subtotal .....	\$450.00
GST (\$450 × 7%) .....	31.50
Total .....	<u>\$481.50</u>
<b>Amount agent gives vendor</b>	
Amount purchaser pays .....	\$2,140.00
Less agent's charges .....	(481.50)
Amount due to Daniel .....	<u>\$1,658.50</u>

### GST to report and remit

Agent	Vendor
GST charged to vendor: \$31.50	GST charged to purchaser: \$140
Agent includes this amount in his/her net tax	Vendor includes this amount in his/her net tax

### Joint election

A joint election can be made between a vendor and an agent when a vendor is required to collect tax, but would prefer the agent to do so. By making this joint election, the agent becomes responsible for collecting, reporting, and remitting the tax on the supply of taxable goods or services made by the vendor. The joint election is made by completing and signing Form GST506, *Election and Revocation of an Election Between Agent and Principal*. Both the vendor and the agent must keep a copy of Form GST506 in their records. If this election is made, the agent is still required to charge and remit GST/HST on the commission and other services provided to the vendor that relate to the supply.

### Note

Under proposed amendments, the following rules apply to agents and vendors who made the election:

- The agent who offers a price reduction and provides a refund, credit, or adjustment to the customer can claim a deduction for the amount of tax refunded, credited, or adjusted in the calculation of his/her net tax.
- The rules pertaining to bad debts adjustments and recovery of bad debts now apply to agents. For more information on bad debts, see "bad debts adjustments" on page 19 and "bad debts recovered" on page 20.
- The agent and vendor are jointly and severally liable for all tax obligations for the supply (including remittance of net tax, bad debts adjustments, recovery of bad debts, penalty and interest charged for overpayment of net tax refund or under payment of net tax).
- If the agent uses the Quick method, the agent has to include any amount of tax recovered on the recovery of bad debts, and can deduct an amount of tax for a bad debt adjustment.
- The agent has to include the sales in the calculation of the threshold amount that determines his/her reporting period. For more information on "Reporting periods" see page 10.

## When the vendor does not have to charge GST/HST

When the vendor is not a registrant or did not use or acquire the goods in a commercial activity, the vendor does not have to charge GST/HST on the supply of the goods. In this case, we consider the agent to have made a taxable supply of these goods to the purchaser. As a result, the agent is responsible for collecting, reporting, and remitting the GST/HST that applies to the supply (other than a zero-rated or exempt supply). However, the agent does not charge the vendor GST/HST on commissions or other services that relate to the supply of the goods.

### Example

Marie, an unregistered vendor, gives a used car to an agent in Nova Scotia to sell for her. The agent, a registrant, sells the used car for \$6,000 plus \$900 HST. The agent charges Marie a commission of \$600 plus an advertising fee of \$25. The agent does not charge HST on the commission and advertising.

### Transaction summary

#### Sale by agent to purchaser

Used car .....	\$6,000
HST (\$6,000 × 15%) .....	900
Amount purchaser pays .....	<u>\$6,900</u>

#### Amount agent charges vendor

Commission .....	\$600
Advertising .....	25
Total .....	<u>\$625</u>

#### Amount agent gives vendor

Selling price excluding HST .....	\$6,000
Less agent's charges .....	(625)
Amount due to Marie .....	<u>\$5,375</u>

### HST to report and remit

Agent	Vendor
HST charged to purchaser: \$900	Vendor does not report any HST collected for this supply.
Agent includes this amount in his/her net tax.	

#### Exception

Sometimes a vendor who is a registrant is not required to collect tax on certain goods (other than exempt or zero-rated goods) because they were not used in commercial activities. For example, where a vendor sells a mix of goods, and some are non-taxable, the vendor and the agent may jointly elect in writing to make the sale of all the goods by the vendor taxable. When the goods are sold, the vendor charges tax and includes it in his/her net tax. The vendor also pays GST/HST on the agent's services and can claim an ITC for this tax. However, the vendor cannot claim an ITC for other expenses related to the supply.

### Zero-rated and exempt goods

When zero-rated or exempt goods are sold, neither the agent nor the vendor charges the purchaser GST/HST. Whether the vendor is registered or not, the agent charges GST/HST on commissions and other services, such as advertising, provided in relation to the sale. This rule also applies to the sale of goods that would ordinarily be taxable at 7% or 15% but are zero-rated because the purchaser exports them from Canada.

#### Example

As an agent of a vendor, you sell zero-rated livestock in Ontario for \$2,000. Your commission is 20% of the selling price and you charge an advertising fee of \$100.

### Transaction summary

#### Sale by vendor through agent

Zero-rated livestock .....	\$2,000
GST (\$2,000 × 0%) .....	0
Amount purchaser pays .....	<u>\$2,000</u>

#### Amount agent charges vendor

Commission (\$2,000 × 20%) .....	\$400
Advertising .....	100
GST (\$500 × 7%) .....	35
Total .....	<u>\$535</u>

#### Amount agent gives vendor

Amount purchaser pays .....	\$2,000
Less agent's charges .....	(535)
Amount due to vendor .....	<u>\$1,465</u>

### GST to report and remit

Agent	Vendor
GST charged to vendor: \$35	GST charged to purchaser: \$0
Agent includes this amount in his/her net tax	

### Direct sellers

Direct sellers are organizations that market their products to consumers through distributors and/or independent sales contractors who solicit orders and deliver merchandise directly to purchasers in their homes.

A special alternate GST/HST collection method simplifies tax collection for direct sellers and their independent sales contractors. This method gives direct sellers the option of having the GST/HST on their exclusive products accounted for entirely at the direct seller or distributor level, based on the suggested retail price of the products. Direct sellers calculate their net tax as if they made the supplies directly to the purchasers at the suggested retail price.

With the alternate collection method, most independent sales contractors do not have to be registered for GST/HST because they do not have to account for GST/HST on their sales of exclusive products to purchasers. Nor do they include revenues from these sales in their calculation to determine if they are a small supplier.

For more information, including how to apply for approval to use the special alternate GST/HST collection method, see GST/HST Memorandum, 14.1, *Direct Sellers*.

### Auctioneers

Auctioneers always charge GST/HST on supplies of taxable (other than zero-rated) goods and services. This means that whether or not the vendor of the goods is registered for GST/HST, the auctioneer charges and remits tax on the sale of the vendor's goods. The vendor does not account for the GST/HST on the sale of these goods. In this case, the auctioneer's services to the vendor, such as freight, storage, advertising, and commissions, are not subject to GST/HST.

## Election

Sometimes a registered vendor and an auctioneer make a joint election to have the vendor remit GST/HST on the sale of auctioned goods. Certain conditions must be met in order to make an election:

- both the vendor and auctioneer are GST/HST registrants;
- the goods would be taxable supplies if made by the vendor;
- the goods are prescribed in the GST/HST regulations; and
- at least 90% of the value of the goods sold at auction on behalf of the vendor is attributable to sales of prescribed goods.

Prescribed goods include:

- cars and trucks designed for highway use;
- flowers, potted plants, bulbs;
- horses; and
- certain heavy machinery and equipment for use in development industries.

Once the vendor and auctioneer have made a joint election, the auctioneer collects GST/HST on the sale of the goods and gives it to the vendor. The vendor remits the GST/HST. The auctioneer charges the vendor GST/HST on the services, such as freight, storage, advertising, and commissions, that relate to the sale of the goods.

To make an election, complete Form GST502, *Election and Revocation of an Election Between Auctioneer and Principal*. Both the vendor and auctioneer must keep a signed copy of the election in their records.

## Supplies to diplomats, Indians, and governments

### Diplomats

As a registrant, you have to charge GST/HST on taxable goods and services you provide to diplomatic missions, consular posts, international organizations, diplomatic agents, consular officers, and designated officials of international organizations. You have to charge GST/HST whether they make purchases for themselves or their organizations.

Foreign representatives are not exempt from paying GST/HST, and you must collect it from them, even if they show you a diplomatic identification card. However, they may be eligible to apply for a GST/HST rebate if you, as the vendor, have given them acceptable documentation for their purchases. To claim the rebate, they have to file Form GST498, *GST/HST Rebate Application for Foreign Representatives, Diplomatic Missions, Consular Posts, International Organizations, or Visiting Forces Units*.

## Federal government

We consider the federal government to be a single entity. It includes all departments, branches, and agencies.

Federal government departments, branches, corporations, and agencies pay GST/HST on their taxable purchases. Therefore, as a registrant, you have to charge GST/HST on the taxable goods and services you supply to the federal government. Special rules apply to supplies of real property. Call us or see GST/HST Memoranda Series, Chapter 19, *Special Sectors: Real Property*.

The federal government also has to charge GST/HST on its taxable supplies.

## Provincial and territorial governments

The governments of the participating provinces (Nova Scotia, New Brunswick, and Newfoundland and Labrador) have agreed to pay GST/HST on their taxable purchases. In addition, all Prince Edward Island and Nunavut government departments and agencies pay GST/HST on their taxable purchases. Therefore, you have to charge GST/HST on taxable goods and services you make to the departments and agencies of these governments.

The remaining provincial and territorial governments, including all their government departments or ministries, and certain of their Crown corporations, boards, commissions, and agencies, do not pay GST/HST on their taxable purchases if they provide certification. Call us if you want to know if a particular government department, ministry, and Crown corporation is considered part of a provincial or territorial government for GST/HST purposes.

You do not charge GST/HST on taxable goods and services made to these governments if an authorized official provides evidence that they are a provincial or territorial department or entity.

We will accept a certification clause that an authorized official of a provincial or territorial government entity has signed as satisfactory evidence. This is a statement on provincial or territorial purchase documents that certifies that a provincial or territorial government is purchasing the goods or services with Crown funds. As the vendor, you have to keep the purchase documents with the certification clause for audit purposes.

Employees of a provincial government who make official business purchases in their own name have to pay GST/HST.

You can claim ITCs for any GST/HST you paid or owe on purchases you made to supply taxable goods and services to provincial or territorial governments.

Provincial governments have to charge GST/HST on their taxable supplies of goods and services.

## Municipalities

Municipalities pay GST/HST on their taxable purchases. Therefore, as a registrant, you have to charge GST/HST on the taxable goods and services you supply to municipalities. Special rules apply to supplies of real

property. Call us or see GST/HST Memoranda Series, Chapter 19, *Special Sectors: Real Property*.

Municipalities also have to charge GST/HST on their taxable supplies. However, many goods and services provided by municipalities are exempt from GST/HST. Also, most goods and services made between municipalities and their own para-municipal organizations are exempt.

For more information, see the guide called *GST/HST Information for Municipalities*.

## Indians

Usually, Indians, Indian bands, and unincorporated band-empowered entities do not pay GST/HST on their taxable purchases if they meet certain conditions and provide proper documentation.

### Goods

You do not charge GST/HST on goods you supply to an Indian, Indian band, or band-empowered entity if the goods are supplied on a reserve or, when sold off a reserve, you or your agent deliver them to a reserve. If the purchaser transports the goods to a reserve, tax applies to the supply.

### Services

You do not charge GST/HST on services you supply to an Indian if you perform the services entirely on reserve or the services are for real property interests on a reserve. You also do not charge GST/HST on services you supply to an Indian band or band-empowered entity for band management activities or for real property on a reserve, even when performed off reserve. However, Indian bands and band-empowered entities have to pay GST/HST on all off-reserve purchases of transportation, short-term accommodation, meals, and entertainment.

### Documentation

An Indian must present you proof of registration under the *Indian Act* to purchase goods or services without paying GST/HST. For individuals, we accept the Certificate of Indian Status card as proof of registration. This card displays the Canadian maple leaf logo, followed immediately by "Indian and Northern Affairs Canada." The certificate may also bear the photograph of the individual, a registry number (9 or 10 digits), the name of the band to which the individual belongs, and the family number.

You must keep, as adequate evidence, a notation on the invoice or other sales document of the 9 or 10 digit registry number or the band name and family number (commonly referred to as the band number/treaty number).

We accept as adequate evidence a certificate provided by an Indian band or band-empowered entity that the property is being purchased by the band. In the case of services, the certificate must state that the services are being purchased for band management activities.

Where goods are delivered to a reserve, you must also keep adequate evidence of delivery.

You can claim ITCs for any GST/HST you paid or owe on purchases you made to supply taxable goods and services to Indians and Indian bands, even though you did not collect GST/HST on the supply.

For more information, see Technical Information Bulletin B-039R, *GST Administrative Policy – Application of GST to Indians*.

#### Exception

As of February 15, 1998, taxable goods and services purchased by Yukon First Nations with a final agreement in place and Indians who are members of such First Nations and resident in the Yukon are subject to GST/HST.

## Trade-ins

If, in the course of your business, you accept used goods in trade for full or partial payment for goods you sell or lease, special rules apply depending on whether or not the person from whom you are accepting the trade-in has to charge tax on the trade-in.

### When the vendor has to charge tax

If the person from whom you accept used goods in trade has to charge GST/HST (for example, if the trade-in is an asset of a registrant's business), two separate transactions take place. You purchase the trade-in from your customer and make a sale or a lease to the same customer. You have to collect GST/HST on the full price charged for the goods you sell or lease, and you have to pay GST/HST on the value of the trade-in.

#### Example

Axle Company, a registrant in Alberta, sells new machinery to Gilson Company, also a registrant, for \$50,000. Axle Company accepts old machinery as a trade-in with a trade-in value of \$20,000. Axle Company will invoice and collect GST on the full \$50,000 selling price. Gilson Company will invoice and collect GST on the trade-in value of \$20,000.

Both you and your customer may claim an ITC for the GST/HST you both pay or owe.

When you accept a trade-in, find out if your customer has to collect GST/HST before you close the deal. If so, make sure the invoice includes the information listed on the chart on page 12, so that you can claim an ITC.

### When the vendor does not have to charge tax

A different rule applies for used goods you accept in trade from a person who is not required to charge GST/HST (usually a person who is not required to register for GST/HST). A person may also trade in a leasehold interest in used goods.

In this case, you charge GST/HST on the net amount of the sale or lease, that is, the price of the goods you sell or lease minus the amount you allow for the trade-in. This approach is consistent with the treatment of trade-ins under most provincial sales taxes. For more information on trade-ins, see Technical Information Bulletin B-084, *Treatment of Used Goods*.

**Example**

John, an individual who has used his car for personal use only, goes to a registered car dealer in Manitoba to trade in his used car for a new one. The selling price of the new car is \$25,000, and the dealer allows \$10,000 for the used car. The dealer charges GST on \$15,000.

Selling price of new car.....	\$25,000
Less trade-in of used car .....	(10,000)
Subtotal .....	\$15,000
GST (\$15,000 × 7%).....	1,050
<b>John pays.....</b>	<b><u>\$16,050</u></b>

**Sale-leaseback arrangements**

When you purchase something from a person who does not have to collect tax on the sale and immediately lease the property back to that person, the amount of GST/HST on the lease is determined by deducting the amount paid or credited for the sale from the lease payments. The total credit is usually spread evenly over the number of lease payments.

When there is no change in the number of lease payments, you determine the credit for each lease payment at the beginning of the lease by dividing the sale price of the good by the number of lease payments. The maximum you can deduct from any one lease payment is the amount necessary to bring that payment to zero.

When there is a renewal, variation, or early termination in a lease that changes the number of lease payments, or when the lease is assigned to a new lessor but the lessee and the property remain the same, you recalculate the amount that you may credit against each lease payment. When a lessee exercises an option to purchase the property, you can deduct any unused credit from that purchase price up to the amount of the purchase price.

Call us if you need more information on sale-leaseback arrangements.

**Barter-exchange networks**

A barter-exchange network is a group of persons who have agreed in writing to accept credits (barter units) on accounts of the group members in exchange for property or services traded among members. The accounts are maintained by an “administrator”, who is responsible for administering, maintaining, or operating a system of members’ accounts to which barter units may be credited. When supplied by a GST/HST registrant, tax applies on the exchange value of the barter unit and on the goods and services provided for the units.

The administrator of a barter-exchange network may apply to have the network designated for GST/HST purposes.

Members of a designated barter-exchange network do not have to pay tax on barter units accepted in exchange for their supplies of goods or services. However, if registrants, they would continue to charge tax on their taxable supplies of goods and services provided for the barter units.

Call us if you need more information on how to apply for the designation.

**Selling your business**

If you are selling your business or part of your business, there is a joint election that can be made with the purchaser to have no tax payable on the sale. This can be done if:

- you sell the business or part of the business that you established or carried on;
- there is an agreement for the sale; and
- the purchaser acquires ownership, possession, or use of at least 90% of the property that can reasonably be regarded as being necessary for the purchaser to be capable of carrying on the business or part of the business, as a business.

Any property not acquired under the agreement but that the purchaser needs to carry on the business has to fall within the remaining 10% of the fair market value of all the property acquired. For example, where real property such as land and a building is not included in the supply, but is purchased elsewhere, it and any other property purchased should not exceed 10% of the fair market value of all the property required to carry on the business.

As well, the purchaser has to be capable of carrying on the same kind of business that you established or carried on with the property that the purchaser has acquired under the agreement.

This election can only be filed by:

- a registrant when selling to another registrant; or
- a non-registrant when selling to either a registrant or a non-registrant.

This election cannot be used if you sell only one or more assets of your business, or if you are a registrant and the purchaser is not.

You still have to charge GST/HST on the following supplies even if you and the purchaser made the election:

- taxable services to be rendered to the purchaser;
- taxable supplies of property by way of lease, licence, or similar arrangement; and
- a taxable sale of real property to a purchaser who is not a registrant.

To make this election, use Form GST44, *Election Concerning the Acquisition of a Business or Part of a Business*. The purchaser has to file the election with us no later than the due date of the purchaser’s next GST/HST return in which tax would have been payable if the election had not been made.

## Will you have any more business activity?

After you sell the assets of your business, you may or may not intend to carry on with another type of business activity.

If you sell your entire business and have no intention of continuing in any business activity, contact us to cancel your GST/HST account. Unless you notify us, we will continue to send you GST/HST returns and expect you to complete and file them with us. You can call or send us Form RC145, *Request to Close Business Number (BN) Accounts*.

If you do intend to carry on with another type of business activity, call us to help you determine if you can continue to use your current BN, or if you will need to apply for a new one.

## Change of legal entity

If the legal status of your business ownership changes, contact us to determine if you need to change your GST/HST registration. For example, if you are a sole proprietor and decide to take on a partner in your business, you need to get a GST/HST account for the partnership. Another example is if you are a sole proprietor and decide to incorporate your business, your legal status will change from that of a sole proprietor to that of a corporation, and you will also need to change your GST/HST registration. Call us for more information.

## Cancelling your registration

You can request to cancel your registration if:

- you are a small supplier (other than a person who is carrying on a taxi business) and you have been registered for at least one year; or
- you decide to close your business or stop making taxable supplies and you no longer need to be registered for GST/HST.

However, you may have to remit GST/HST on capital property used in your commercial activities, and on other property you have on hand when you cancel your registration. When you cancel your registration, you have to file all GST/HST returns and remit any GST/HST collected or collectible on taxable supplies while a registrant.

## Non-capital property held at the time of deregistration

When you cease to be a registrant, you are considered to have sold each property (other than capital property) you held for consumption, use, or supply in a commercial activity and to have collected GST/HST on such sales. You have to remit GST/HST on the fair market value of each of these properties immediately before you cease to be a

registrant. You are required to account for this GST/HST on your last return as a registrant.

## Capital property held at the time of deregistration

When you cease to be a registrant, you are considered to have ceased using capital property you held for use in your commercial activities immediately before ceasing to be a registrant. Capital property includes land, buildings, vehicles, and computers. As a result, the “change in use rules” may be invoked. Under these rules, you are considered to have sold the capital property immediately before ceasing to be a registrant and to have collected tax equal to the “basic tax content” of the capital property at that time.

Finally, you are required to account for the tax you are considered to have collected in your net tax calculation on your last return as a registrant. As a result of these rules, the ITCs previously claimed on such property will generally be recaptured. For information on the change in use rules and on calculating basic tax content, call us or see page 17.

## ITCs for services, rent, royalties, and similar payments

You are eligible to claim ITCs on GST/HST that becomes payable after you cease to be a registrant if the GST/HST payable is for services that were supplied to you before you cease to be a registrant. This is also the case for rent, royalties, or similar payments that are attributable to a period before you cease to be a registrant. In the case of prepaid arrangements, you are required to make an adjustment to your net tax calculation on your final return if you have claimed ITCs for the GST/HST paid or payable on services to be provided to you after you cease to be a registrant, or for rent, royalties or similar payments that are attributable to a period, after you cease to be a registrant.

## Filing your final GST/HST return

When you cease to be a registrant, your final reporting period as a registrant is considered to end immediately before the day you cease to be a registrant. For example, if your fiscal year is May 1, 2001, to April 30, 2002, you usually report on a quarterly basis, and you cease to be a registrant on September 23, 2001, your final reporting period as a registrant would be August 1 to September 22, 2001, even though the actual reporting period ends on October 31, 2001.

## How to cancel your registration

To cancel your registration, call, write, or send us Form RC145, *Request to Close Business Number (BN) Accounts*.

## Appendix 1 – Publications

We offer a wide range of publications in both official languages. To get copies of publications, contact us at **1-800-959-2221** or visit our Web site.

- **Pamphlets and booklets** are available on a variety of subjects. See the list below.
- **Guides** contain more detailed information on how GST/HST affects specific types of businesses and organizations. See the list in the next column.
- **GST/HST Memoranda** give more in-depth technical information on administrative and policy aspects of the GST/HST, and are aimed at tax professionals.
- **Technical Information Bulletins** announce changes to GST/HST legislation and administrative policy in specific areas.

If you have business operations in Quebec, contact a ministère du Revenu du Québec (MRQ) office for information and copies of MRQ publications.

### Pamphlets and booklets

**RC2**, *The Business Number and Your Canada Customs and Revenue Agency Accounts*

**RC4031**, *Tax Refund for Visitors to Canada*

**RC4058**, *Quick Method of Accounting for GST/HST*

**RC4072**, *First Nations Tax (FNT)*

**RC4080**, *GST/HST Information for Freight Carriers*

**RC4100**, *Harmonized Sales Tax and the Provincial Motor Vehicle Tax*

**RC4103**, *GST/HST Information for Suppliers of Publications*

**RC4117**, *Tax Refund for Business Travel to Canada*

**RC4125**, *Basic GST/HST Information for Taxi and Limousine Operators*

**RC4160**, *Tax Refund for Non-Residents, Travel Organizers and Foreign Conventions*

**RC4247**, *The Special Quick Method of Accounting for Public Service Bodies*

### Guides

**RC4027**, *Doing Business in Canada – GST/HST Information for Non-Residents*

**RC4028**, *GST/HST New Housing Rebate*

**RC4033**, *General Application for GST/HST Rebates*

**RC4034**, *GST/HST Public Service Bodies' Rebate*

**RC4036**, *GST/HST Information for the Travel and Convention Industry*

**RC4049**, *GST/HST Information for Municipalities*

**RC4050**, *GST/HST Information for Selected Listed Financial Institutions*

**RC4052**, *GST/HST Information for the Construction Industry*

**RC4081**, *GST/HST Information for Non-Profit Organizations*

**RC4082**, *GST/HST Information for Charities*

**RC4091**, *GST/HST Rebate for Partners*

**RC4231**, *GST/HST New Residential Rental Property Rebate*

## Appendix 2 – Forms

There are a number of options available to businesses and organizations to make it easier to comply with GST/HST. These options, called elections or applications, allow you to adapt the administrative requirements of GST/HST to your own business activity. Some options are available to all registrants. Other options are available only to organizations and businesses that meet certain conditions.

Other forms are used to remit an amount of tax. They are called returns or remittances.

To get copies of forms, contact us at **1-800-959-2221** or visit our Web site.

### Elections

You can use an election if you meet all the eligibility criteria. To make an election, complete the appropriate form. Some of the elections can also be made by phone. Once you make an election, it stays in effect until you revoke it, make another election, or no longer qualify to use it. Generally, elections must remain in effect for a minimum of one year.

For some elections, you do not have to return the form to us. Instead, you can keep a copy of the completed election form or a statement containing certain prescribed information on file with your records. This applies to the following forms:

GST17, GST21, GST23, GST24, GST25, GST29, GST30, GST502, and GST506.

You are not required to complete forms for certain other elections. See the next page for “Elections and applications that do not have forms.”

You are responsible for ensuring you meet the conditions of an election. At the time of an audit, we reserve the right to verify your eligibility and to disallow an election if you have not met the requirements.

Some publications include election and application forms.

### Applications

Applications are different from elections. You have to meet the necessary requirements, and for many applications, you can call us or complete the form and mail it to us. We have to acknowledge that we have processed and approved your application before you can begin to use the procedure for which you have applied.

#### Elections and application forms available to all businesses or individuals

**GST10**, *Application or Revocation of the Authorization to File Separate GST/HST Returns and Rebate Applications for Branches or Divisions*

**GST17**, *Election Concerning the Provision of a Residence or Lodging at a Remote Work Site*

**GST20**, *Election for GST/HST Reporting Period*

**GST21**, *Joint Venture Election – Election to Have Joint Venture Operator Account for GST*

**GST22**, *Real Property – Election to Make Certain Sales Taxable*

**GST24**, *Election to Tax Professional Memberships*

**GST29**, *Educational Services – Election and Revocation of the Election to Make Certain Supplies Taxable*

**GST30**, *Election for Passenger Vehicles or Aircraft to be Deemed to be Used Exclusively in Non-Commercial Activities*

**GST32**, *Application to Deem One Unincorporated Organization to be a Branch of Another Unincorporated Organization*

**GST44**, *Election Concerning the Acquisition of a Business or Part of a Business*

**GST70**, *Election, or Revocation of an Election, to Change a GST/HST Fiscal Year*

**GST71**, *Notification of Accounting Periods*

**GST74**, *Election and Revocation of an Election to Use the Quick Method of Accounting*

**GST189**, *General Application for Rebate of GST/HST*

**GST190**, *GST/HST New Housing Rebate Application*

**GST190-WS**, *Construction Summary Worksheet*

**GST288**, *Supplement to Form GST189 and Form GST498*

**GST370**, *Employee and Partner GST/HST Rebate Application*

**GST469**, *Direct Deposit Request*

**GST495**, *Rebate Application for Provincial Part of Harmonized Sales Tax (HST)*

**GST502**, *Election and Revocation of an Election Between Auctioneer and Principal*

**GST506**, *Election and Revocation of an Election Between Agent and Principal*

**GST507**, *Third Party Authorization and Cancellation of Authorization for GST/HST Rebates*

**GST515**, *Direct Deposit Request for the GST/HST New Housing Rebate*

**GST518**, *GST/HST Specially Equipped Motor Vehicle Rebate Application*

**GST521**, *GST/HST Multi-Employer Pension Plan Trust Rebate Application*

**GST524**, *GST/HST New Residential Rental Property Rebate Application*

**GST525**, *Supplement to the New Residential Rental Property Rebate Application – Multiple Units*

**GST528**, *Authorization to Use an Export Distribution Centre Certificate*

**RC1**, *Request for a Business Number (BN)*

**RC59**, *Business Consent Form*

**RC145**, *Request to Close Business Number (BN) Accounts*

## Elections and application forms for public service and public sector bodies

**GST23**, *Election by a Public Sector Body to Have Its Exempt Memberships Treated as Taxable Supplies*

**GST26**, *Election or Revocation of an Election by a Public Service Body to Have an Exempt Supply of Real Property Treated as a Taxable Supply*

**GST31**, *Application by a Public Service Body to Have Branches or Divisions Designated as Eligible Small Supplier Divisions*

**GST66**, *Application for GST/HST Public Service Bodies' Rebate and GST Self-Government Refund*

**GST287**, *Election or Revocation of the Election by Public Service Bodies to Use the Special Quick Method of Accounting*

**GST322**, *Certificate of Government Funding*

**GST488**, *Election or Revocation of an Election Not to Use the Net Tax Calculation for Charities*

**GST523-1**, *Non-profit organizations – Government Funding*

## Elections and application forms for corporations and financial institutions

**GST25**, *Election or Revocation of the Election to Deem Certain Taxable Supplies Between Closely Related Corporations to Have Been Made for Nil Consideration*

**GST25S**, *Supplemental: Election or Revocation of the Election to Deem Certain Taxable Supplies Between Closely Related Corporations to Have Been Made for Nil Consideration*

**GST27**, *Election or Revocation of an Election to Deem Certain Supplies to be Financial Services*

**GST303**, *Application to Offset Taxes by Refunds or Rebates*

**GST355**, *Streamlined Joint Venture Election – Election to Have Joint Venture Operator Account for GST*

**GST497**, *Election Under the Special Attribution Method for Selected Listed Financial Institutions and Notice of Revocation*

## Applications for non-residents and visitors

**GST114**, *Bond for Non-Resident Person Without a Permanent Business Establishment in Canada*

**GST176**, *Application for Visitor Tax Refund*

**GST177**, *Refund Application for Non-Resident Travel Organizers*

**GST367**, *Endorsement to the Bond for Non-Resident Person Without a Permanent Business Establishment in Canada*

**GST386**, *Refund Application for Foreign Conventions*

**GST510**, *Application for Business Travel Tax Refund*

## Rebate applications for diplomats

**GST498**, *GST/HST Rebate Application for Foreign Representatives, Diplomatic Missions, Consular Posts, International Organizations, or Visiting Forces Units*

## Elections and applications that do not have forms

- Simplified Method of determining ITCs
- Simplified Method of determining rebates
- Election to use the actual part of a patronage dividend that is attributable to taxable supplies (other than zero-rated supplies) for purposes of consideration and GST/HST adjustments
- Election not to use patronage dividends for purposes of consideration and GST/HST adjustments
- Election concerning the supply of business property of a deceased person
- Application for approval for a direct seller to use the alternate collection method
- Application for designation of a barter exchange network
- Application for designation to temporarily stop filing GST/HST returns

## Returns and Remittances

**GST59**, *GST/HST Return for Imported Taxable Supplies*

**GST60**, *GST/HST Return for Acquisition of Real Property*

**GST62**, *Goods and Services Tax / Harmonized Sales Tax (GST/HST) Return (Non-Personalized)*

**GST426**, *Goods and Services Tax / Harmonized Sales Tax (GST/HST) Remittance (Non-Personalized)*

**GST489**, *Tax Return for Self-Assessment of the Provincial Part of Harmonized Sales Tax (HST)*

**GST494**, *Goods and Services Tax / Harmonized Sales Tax Final Return for Selected Listed Financial Institutions*

**GST499-1**, *First Nations Tax (FNT) Schedule*

## Appendix 3 – Line-by-line instructions for completing your GST/HST return

To complete your GST/HST return, you usually need the following amounts: your revenues, and GST/HST for both revenues and purchases. We have included sample personalized GST/HST returns at the end of this guide.

If you are using the Quick Method, follow the instructions for lines 101 to line 107 on page 51. Follow the instructions from the regular method to complete the other lines.

Only complete the lines of the return that apply to you.

Include on the GST/HST return information that applies only to the reporting period for which you are filing. If you expect a refund from a previous reporting period but have not yet received it, do not include this information on your current GST/HST return.

Once you have completed the lines on the top part of your return (Part 1), copy the information onto the corresponding lines on the lower part of your return (Part 2). Ensure that the numbers are clear and that you enter each digit in a separate box.

You or your authorized representative must sign the return.

### Note

We do not charge or refund a balance of less than \$2.

## Regular method

### Line 101 – Sales and other revenue

Enter the total amount of supplies of goods and services, including zero-rated supplies and other revenue, shown in your records. If you file annually, enter the total sales from your financial statements or equivalent. Do not include provincial sales tax, GST, HST, and any amounts you reported on a previous return. Round off the amount to the nearest dollar.

### Line 103 – GST/HST collected or collectible

Enter all GST/HST you charged on goods and services for which you have to charge 7% GST and 15% HST (including the GST/HST you charged on the sale of taxable real property, if applicable, or capital assets).

For each reporting period, include the amount of GST/HST you charged on both paid and unpaid invoices.

### Line 104 – Adjustments

Complete line 104 only if you have to make adjustments to **increase** the amount of your net tax for the reporting period. Enter the total of all adjustments. For example:

- if you wrote off the GST/HST amount of any bad debts in a previous return and then recovered some or all of those debts, add the amount of GST/HST you have recovered based on the formula described on page 20;
- if your lease payments for a passenger vehicle are more than the maximum leased costs that are deductible under the *Income Tax Act*, once a year you have to add a portion of the ITCs you previously claimed for these payments.

This maximum lease cost is of \$650 per month for leases entered into in 1998 and 1999, \$700 per month in 2000, and \$800 per month in 2001 and 2002;

- if you have claimed 100% ITCs for meal and entertainment expenses during the year, once a year you must add 50% of those credits to your net tax. See page 14 for more information.

### Line 105 – Total GST/HST and adjustments for period

Add lines 103 and 104, and enter the result on line 105.

### Line 106 – Input tax credits (ITCs)

This amount reflects the GST/HST you paid or owe on the total value of goods and services you acquired, imported, or brought into a participating province to use, consume, or resell in the course of your commercial activities. Enter the total of all ITCs for the reporting period, and any ITCs you did not claim in an earlier reporting period, provided the time limit for claiming the ITCs has not expired.

### Line 107 – Adjustments

Complete line 107 if you have to make adjustments to **decrease** the amount of your net tax for the reporting period. Enter the total of all adjustments. For example, you can claim the amount of any GST/HST in bad debts you write off if you have previously accounted for the full amount of GST/HST on the supplies that resulted in those debts, and remitted any net tax owing. See page 19 for more information on bad debts. You can also claim a deduction for several rebates you paid or credited to a purchaser.

**Some** examples of rebates are:

- if you are a builder, the amount of a new housing rebate you paid or credited to a purchaser in that reporting period, as long as you submit the purchaser's new housing rebate application, Form GST190, *GST/HST New Housing Rebate Application*, with your GST/HST return. For more information, see the guide called *GST/HST New Housing Rebate*;
- if you paid or credited the amount of a rebate on a sale of a specially equipped motor vehicle, as long as you submit Form GST518, *GST/HST Specially Equipped Motor Vehicle Rebate Application*, with your GST/HST return;
- if you are a tour or hotel operator, the amount of rebate you paid or credited a non-resident tour operator or incentive travel house for short-term accommodation. For more information, see the guide called *GST/HST Information for the Travel and Convention Industry*;
- if you are a hotel or convention facility operator, the amount of rebate you paid or credited a non-resident convention sponsor or organizer for convention-related goods and services. For more information, see the guide called *GST/HST Information for the Travel and Convention Industry*; or

- the amount of rebate you paid or credited to a non-resident for taxable installation services, as long as you file the non-resident's rebate application Form GST189, *General Application for Rebate of GST/HST*, with your GST/HST return.

### Line 108 – Total ITCs and adjustments

Add lines 106 and 107, and enter the result on line 108.

### Line 109 – Net tax

Subtract line 108 from line 105. The difference is your net tax. Enter the amount on this line.

If you are filing your return late and this line shows an amount owing, we will charge you penalty and interest on the amount, minus any instalments you have already paid.

If the amount you enter is negative (total ITCs and adjustments are more than the total GST/HST and adjustments), put a minus sign in the box to the left of the amount.

### Line 110 – Instalment and other annual filer payments

Enter the total amount of instalments as you reported on Form GST58, *Goods and Services Tax / Harmonized Sales Tax (GST/HST) Remittance*, or Form GST426, *Goods and Services Tax / Harmonized Sales Tax (GST/HST) Remittance (Non-Personalized)*. For more information on instalment payments, see page 22.

If you are an individual with business income for income tax purposes and have a December 31 fiscal year-end, your return due date is June 15. However, your net tax remittance is due April 30. If you remitted your net tax and you are now filing your GST/HST return, add the amount of your remittance to the instalments you made, if any, and enter the total on line 110.

Do not enter any other amount on line 110. You cannot use this line to report your ITCs or other payments you made without filing a return, or refunds you expect to receive.

### Line 111 – Rebates

Some rebates can reduce or offset your amount owing. Those rebate forms contain a **Yes/No** question asking you if you want to claim the rebate amount on line 111 of your GST/HST return. If you want to offset the amount owing by the rebate, check the **Yes** box on the rebate form and include it with this return. Examples of rebate amounts that can be included on line 111 are:

- Form GST189, *General Application for Rebate of GST/HST*;
- Form GST284, *Application for GST/HST Public Service Bodies' Rebate and GST Self—Government Refund*;
- Form GST66, *Application for GST/HST Public Service Bodies Rebate and GST Self—government Refund* (non-personalized);
- Form GST521, *GST/HST Multi-Employer Pension Plan Trust Rebate Application*; and
- GST524, *GST/HST New Residential Rental Property Rebate Application*.

Enter the total amount of rebate you are claiming. See the section "How to use a rebate or refund to decrease an amount owing on your GST/HST return" on page 23, for more information.

**Do not include** the following on line 111:

- amounts from rebate applications that you have not included with the return;
- ITCs;
- amounts you paid or credited to the purchaser such as:
  - amounts from form GST177, *Refund Application for Non-Resident Travel Organizers*;
  - amounts from Form GST189, *General Application for Rebate of GST/HST*, under reason code 10;
  - amounts from Form GST190, *GST/HST New Housing Rebate Application*; or
  - amounts from Form GST386, *Refund Application for Foreign Conventions*.

### Line 112 – Total other credits

Add the amounts on lines 110 and 111, and enter the total on line 112.

### Line 113 A – Balance

Subtract line 112 from line 109, and enter the result on line 113 A. If the result is negative, put a minus sign in the box to the left of the amount.

### Line 205 – GST/HST due on acquisition of taxable real property

Complete this line only if you are a registrant who purchases real property (other than an individual who purchases a residential complex) for use or supply more than 50% in the course of your commercial activities. Enter the amount of GST/HST due on the acquisition of real property on this line. For more information on the application of GST/HST on real property, see page 35.

### Line 405 – Other GST/HST to be self-assessed

Complete this line only:

- if you are a registrant and have to self-assess the provincial part of HST on property or services brought into a participating province. Enter the amount of tax due on this line based on the information given on page 27 under "Tax on goods and services brought into a participating province"; or
- if you are a registrant who imports a taxable supply for consumption, use, or supply in less than 90% of your commercial activities and have to self-assess GST/HST. Enter on this line the total amount of GST/HST due on the imported taxable supplies. See page 33 for more information on how to calculate the tax due.

### Line 113 B – Total other debits

Add lines 205 and 405, and enter the result on line 113 B.

## Line 113 C – Balance

Add lines 113 A and 113 B, and enter the result on line 113 C. If the result is negative, put a minus sign in the box to the left of the amount.

## Line 114 – Refund claimed

If the amount on line 113 C is negative, enter this amount on line 114 to claim your refund.

## Line 115 – Payment enclosed

If the amount on line 113 C is positive, enter this amount on line 115. Enclose a cheque for this amount.

## Quick Method

If you have elected to use the Quick Method of accounting, use the following line-by-line instructions to complete your GST/HST return. For more detailed information on the Quick Method, see the booklet called, *Quick Method of Accounting for GST/HST*. If you are a public service body, see the booklet called *The Special Quick Method of Accounting for Public Service Bodies*.

## Line 101 – Sales and other revenue

Enter the total amount of supplies of goods and services that are taxable at 7% or 15%, **including GST/HST**, as shown in your records. If you file annually, enter the total taxable sales, **including GST/HST**, from your financial statements or equivalent. Do not include provincial sales tax, supplies on which no GST/HST was charged such as zero-rated and exempt supplies, supplies made outside Canada, or goods and services sold to Indians or provincial or territorial governments that are relieved of paying the GST/HST. Round off to the nearest dollar the amount you enter on line 101.

## Line 103 – GST/HST collected or collectible

Total your eligible supplies (as explained in the booklets called *Quick Method of Accounting for GST/HST* and *The Special Quick Method of Accounting for Public Service Bodies*), including GST/HST. If you made any sales adjustments, refund or credits, deduct the GST/HST included amounts refunded or credited to your customers from your total eligible sales.

Multiply your total by the Quick Method remittance rate which applies to those supplies. If you use more than one remittance rate, you must separate your eligible supplies and multiply those supplies by the appropriate rate. For example, if you have supplies that are taxable at 7% and some that are taxable at 15%, total those that are taxable at 7% and apply the appropriate rate and do the same for those that are taxable at 15%.

Add any GST/HST charged on supplies which cannot be accounted for by using the Quick Method remittance rates such as sales of real property, capital assets and eligible capital property. Enter this total on line 103.

## Line 104 – Adjustments

Complete line 104 only if you have to make adjustments relating to taxable supplies for which you must remit the

full 7% GST or 15% HST to **increase** the amount of your net tax for the reporting period. Enter the total amount of all adjustments on line 104. For example, complete this line when you have recovered some or all of a bad debt from a sale on which you previously remitted 7% GST or 15% HST, and for which you claimed an adjustment on line 107.

## Line 105 – Total GST/HST and adjustments for period

Add the amounts on lines 103 and 104, and enter the total on line 105.

## Line 106 – Input tax credits (ITCs)

The Quick Method remittance rates already take into account the ITCs for operating expenses and inventory purchases. However, you can claim ITCs for certain expenses such as real property and capital purchases that are eligible for a capital cost allowance for income tax purposes. There are special rules for claiming ITCs for capital property and real property, which are outlined on pages 16 and 35. Total all the ITCs that you are entitled to claim.

If the 0% Quick Method remittance rate applies to your eligible supplies, add 2.1% of those supplies (including GST). The 0% remittance rate applies to businesses located in a participating province with supplies in non-participating provinces. This adjustment is necessary because these businesses generally pay 15% HST on their purchases and charge 7% GST on their supplies.

Enter the total amount on line 106.

## Line 107 – Adjustments

Under the Quick Method, you may be entitled to a 1% credit on the first \$30,000 of your eligible supplies in a fiscal year (including GST/HST).

Complete line 107 if you are entitled to claim the 1% credit or if you are entitled to make adjustments that **decrease** the amount of your net tax for the reporting period. For example, you may be able to claim the GST/HST included in a bad debt relating to supplies for which you had to account for the full 7% GST or 15% HST such as capital assets and real property. You are entitled to the bad debt adjustment if you wrote off the bad debt in your records, previously accounted for the GST/HST in a return, and remitted any net tax owing.

Add the 1% credit and other adjustments, and enter this total on line 107.

### Note

The instructions for the rest of the lines are the same as those given on the previous pages for the regular method.

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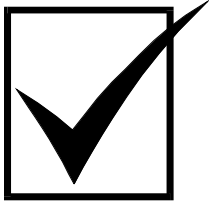
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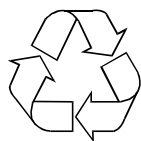
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