



Understanding Canadian Sales Taxes

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GST/HST and Impact on Universities

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GST/HST and Impact on Universities

Reference Materials

Canada Revenue Agency, [GST/HST Memorandum 8.4](#), August 2012, “Documentary Requirements for Claiming Input Tax Credits”

Canada Revenue Agency, [GST/Memorandum 13.4](#), July 2002, “Rebates for Printed Books, Audio Recordings of Printed Books, and Printed Versions of Religious Scriptures”.

Canada Revenue Agency, [GST/HST Memorandum 9.3](#), June 2012, “Allowances”

Canada Revenue Agency, [GST/HST Memorandum 9.4](#), June 2012, “Reimbursements”

GST/HST Registry: <http://www.cra-arc.gc.ca/esrvce/tx/bsnss/gsthstrgstry/trms-eng.html>

QST Registry: http://www.revenuquebec.ca/en/sepf/services/sgp_validation_tvq/default.aspx



GST/HST and Impact on Universities

Glossary of Terms

CBSA:	Canada Border Services Agency
CRA:	Canada Revenue Agency
ETA:	<i>Excise Tax Act</i>
GST:	Goods and Services Tax
HST:	Harmonized Sales Tax
ITA:	<i>Income Tax Act</i>
ITC:	input tax credit
ITR:	input tax refund
PSB:	public service body
PST:	Provincial Sales Tax
PVAT:	provincial component of HST
QST:	Québec Sales Tax
QSTA:	<i>an Act respecting the Québec sales tax</i>
RITC:	recapture of input tax credits (provincial component)

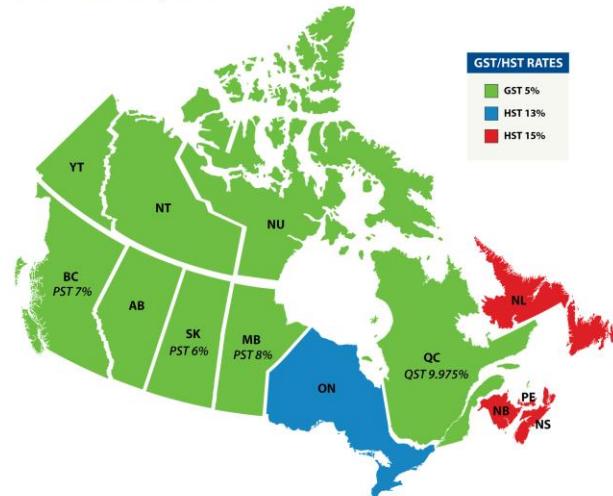
Understanding Canadian Sales Taxes



April 12, 2017



Effective March 23, 2017



Province	PST/QST Rate	GST/HST Rate	Combined Rate
British Columbia (BC) ¹	7%	5%	12%
Alberta (AB)	N/A	5%	5%
Saskatchewan (SK) ⁶	6%	5%	11%
Manitoba (MB) ²	8%	5%	13%
Ontario (ON)	N/A	13%	13%
Quebec (QC) ³	9.975%	5%	14.975%
New Brunswick (NB) ⁴	N/A	15%	15%
Nova Scotia (NS)	N/A	15%	15%
Prince Edward Island (PE) ⁵	N/A	15%	15%
Newfoundland and Labrador (NL) ⁴	N/A	15%	15%
Yukon (YT), NWT (NT), Nunavut (NU)	N/A	5%	5%

¹ British Columbia de-harmonized effective April 1, 2013. From July 1, 2010 to March 31, 2013 HST was 12%.

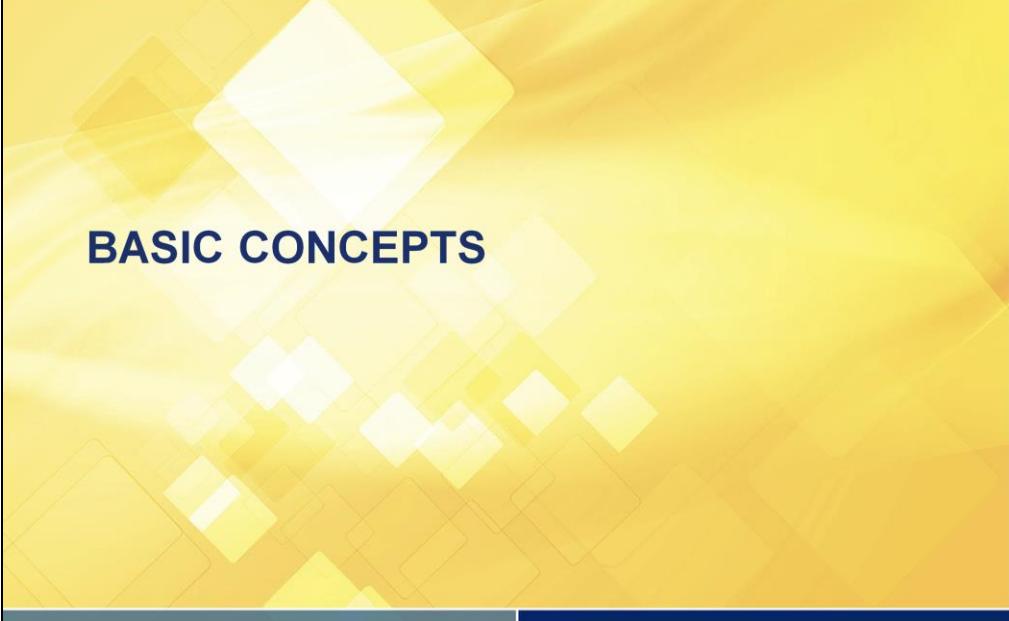
² Effective July 1, 2013 Manitoba Retail Sales Tax increased from 7% to 8%.

³ QST increased to 9.975% effective January 1, 2013 and is no longer calculated on a GST-included basis.

⁴ Effective July 1, 2016, the HST rates in New Brunswick and Newfoundland and Labrador increased from

⁵ Effective April 1, 2013 PST was harmonized with GST, with an HST rate of 14%. Effective October 1, 2016, the HST rate increased from 14% to 15%.

⁶ Effective March 23, 2017 Saskatchewan Provincial Sales Tax increased from 5% to 6%.



BASIC CONCEPTS



BASIC CONCEPTS

What is GST/HST?

- federal tax
- value-added tax
- 5%, 13% or 15% on taxable supplies made available in Canada
- generally charged on taxable supplies made in Canada

- GST/HST is a federal tax that is calculated on the value of taxable supplies (i.e., goods or services) made or deemed to be made available in Canada.
- Organizations registered for the tax (registrants) charge GST on all taxable supplies (goods or services) made available in Canada and HST on all taxable supplies made available in a participating province. The GST/HST collected is remitted to the Canada Revenue Agency ("CRA").
- Unlike Provincial Sales Tax ("PST") that is only charged to the end-user, GST/HST is a value-added tax that is charged at each stage of the supply chain. However, most organizations in commercial activity are entitled to recover the tax as an input tax credit ("ITC"). As a result, there is no cost to these organizations and the GST/HST is really only a cost to the final consumer.
- HST is essentially GST at a higher rate. There are currently five participating provinces (Newfoundland and Labrador (15%), New Brunswick (15%), Ontario (13%), Prince Edward Island (15%), and Nova Scotia (15%)). Goods and services made available elsewhere in Canada are subject to GST at a rate of 5%, plus any applicable PST.
- Taxable supplies include both property and services. Property includes goods, real property and intangibles. Services are defined to include everything other than property except money, salaries and wages.

BASIC CONCEPTS

What is taxable?

- taxable supplies
 - most goods and services
 - includes zero-rated supplies
 - basic groceries
 - exports
 - entitled to claim ITCs

- Most goods and services are taxable in Canada. A “taxable supply” means a supply that is made in the course of an organization’s commercial activities, which generally includes everything other than the provision of exempt supplies. Therefore, this term includes supplies taxed at 5%, 13% or 15% for GST/HST purposes, and 9.975% for QST purposes.
- Taxable supplies also includes zero-rated supplies. Zero-rated means subject to tax at a rate of 0%. Examples include:
 - prescription drugs and medical devices;
 - basic groceries (not snack foods);
 - agriculture and fishing supplies; and
 - exports of goods and certain qualifying services.
- Organizations that provide taxable supplies are eligible to claim ITCs for GST/HST paid in respect of expenses incurred to provide those taxable supplies. As a result, GST/HST and QST do not become costs to these organizations.

BASIC CONCEPTS

What is taxable?

- exempt supplies
 - includes:
 - education services
 - financial services (e.g., insurance)
 - not entitled to claim ITCs
 - allocation methods
 - » for expenses used in both taxable and exempt activities

- In addition to taxable and zero-rated supplies, the legislation provides for exempt supplies. These supplies are not subject to tax. The supplier is not required to collect tax on exempt supplies. However, they are also not entitled to claim ITCs in respect of expenses incurred to provide exempt supplies. Therefore, the tax becomes a cost to these organizations and will generally form part of the cost of goods or services. Note that certain qualifying organizations (e.g., universities) may be eligible to claim a rebate for a portion of the tax paid.
- Examples of exempt supplies include:
 - used residential real property;
 - health care services;
 - educational services;
 - supplies made by public sector bodies (MUSH sector – municipalities, universities, school boards and hospitals); and
 - supplies of financial services.
- Organizations that make both taxable and exempt supplies will generally be required to allocate tax paid in respect of the provision of these supplies between their commercial and non-commercial activities. The allocation method selected must be used consistently throughout a fiscal year, and must be fair and reasonable.

BASIC CONCEPTS

Intercompany sales

- general rules apply
- “wash transaction” policy

A large, red, three-dimensional style number '4' followed by a '%' symbol, representing the tax rate.

- Intercompany sales are treated the same as sales made to third parties, and are subject to tax if the goods or services are taxable. It is important to note that previously exempt costs may lose their exempt status (i.e., become taxable) when resupplied by a registrant to a separate legal entity. For example, employee wages, property taxes and insurance may be exempt when incurred by a parent company, but if a portion of these costs is billed to a subsidiary, the resupply will generally become taxable (at 5%, 13%, 15% or 9.975%) where the parent company is a GST/HST and QST registrant and the supply is made in Canada/Québec.
- The CRA will assess registrants for tax not collected in these circumstances, plus interest, even though the recipient may be eligible for ITCs or partial rebates. If the recipient is eligible for full ITCs, the application of the CRA “wash transaction” policy may reduce the interest to a flat 4%. Québec will also apply “wash transaction” relief where these same circumstances exist for QST purposes.

BASIC CONCEPTS

GST Place of supply rules

- goods
 - destination based
 - supplied by way of sale
- services
 - performed in whole or in part in Canada

- There are two sets of “place of supply” rules used to determine if a supply is made in Canada. The first is the GST place of supply rule for determining whether a supply is made in Canada. Where these rules conclude that a supply is made in Canada, then GST at minimum must be collected (provided the supply is not exempt or zero-rated). The second set of rules is the HST and QST place of supply rules which are used to determine whether a supply is made in a participating province and therefore subject to HST or QST.
- The place of supply rules that must be followed in determining whether a supply is considered to have been made in Canada will vary depending on what is being supplied and whether or not the supply has been made by way of sale. GST/HST is a destination-based tax. As a result, tax generally follows the goods and not the billing address.
- Under the legislation, the sale of goods is considered to be made in the place where the goods are delivered or made available to the recipient of the supply. Thus, goods supplied by way of sale that are delivered to a place in Canada will be considered to be made available in Canada and are generally subject to GST/HST, unless a zero-rating provision is available.
- Under the *Excise Tax Act* (“ETA”), services performed in whole or in part in Canada are subject to GST/HST. Only where a service is performed entirely outside of Canada, will GST/HST not apply. Therefore, even where only part of a service is performed in Canada, and most of the service is performed outside of Canada, GST may apply. The place of supply rules are generally an all or nothing test, and even a small percentage of the work being performed in Canada could cause the entire transaction to be subject to tax.

BASIC CONCEPTS

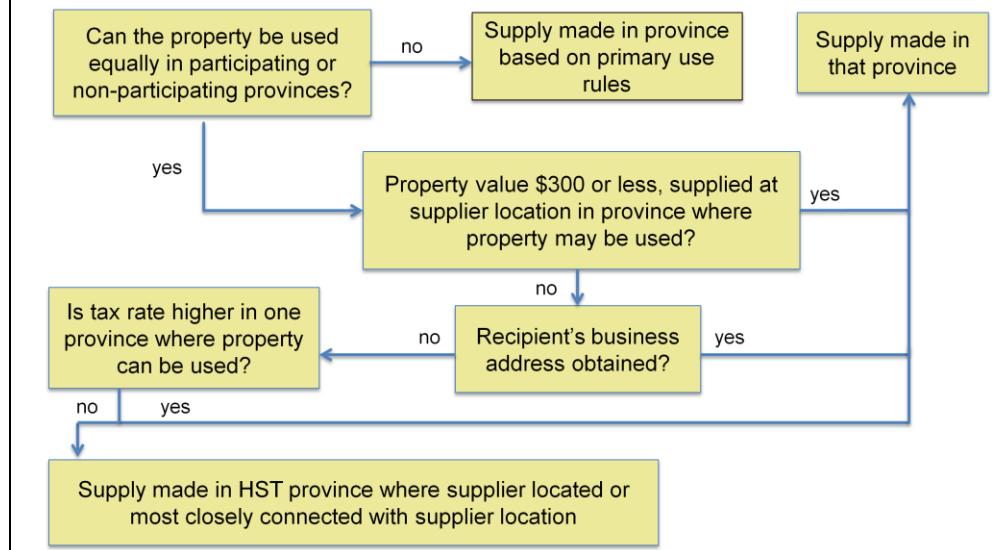
HST Place of supply rules

- goods supplied by way of sale
 - destination based
 - based on where the goods are delivered or made available
 - includes delivery by mail or courier
- services – general rule
 - emphasis on location of recipient of supply
 - tie-breaking rules where no address obtained

- The general rule for goods is that tax follows the goods. In other words, the supply of tangible personal property (“TPP”) by way of sale is considered to be made in a participating province, if the goods are delivered or made available in one of those provinces. Regardless of where the supplier or recipient are located, the place of supply is determined based on where the goods are made available to the recipient. These rules encompass delivery by mail or courier, and also include the transfer of goods to a common carrier retained on behalf of the recipient to ship the goods to a participating province.
- The general rules for the place of supply of services in a participating province are fairly straightforward in cases where the supplier obtains a Canadian address of the recipient. Where the provider of a service supplied in Canada has obtained in the normal course of business a particular address of the recipient, the supply will be deemed to be made in the province in which the particular address is located, where the address is:
 - a home or business address in Canada of the recipient;
 - where more than one home or business address in Canada is obtained, the home or business address that is most closely connected to the supply (“the contracting address”); or
 - where the supplier does not obtain a home or business address in Canada of the recipient, another Canadian address that is located in the province and is most closely connected with the supply.
- An office, branch, factory, workshop or service depot may be considered a business address for the purposes of this rule. However, a P.O. box would not likely be considered a business address.

PLACE OF SUPPLY RULES

HST and QST - IPP that can be used anywhere in Canada



- Rights under an agreement may not be limited to the participating provinces and, in many cases, may be granted throughout Canada. Where the Canadian rights in respect of a supply of intangible personal property (“IPP”) are not limited to being used only primarily in or outside the participating provinces, the rules noted below should be followed:
- Rule 1: Where the value of the consideration is \$300 or less, the supply is made through a specified location of a supplier, and the supply is either made in the presence of an individual who is the recipient, or acts on behalf of the recipient, in a province where the IPP can be used, the supply will be regarded as having been made in that province.
- Rule 2: If Rule 1 does not apply, and the supplier obtains the recipient’s address (home or business or an address closely connected with the supply) in the normal course of business, and the address is located in a province where the supply can be used, the supply is deemed to be made in that province.
- Rule 3: If neither Rule 1 nor Rule 2 applies, the participating province with the highest provincial component of the HST among the participating provinces in which the IPP can be used will be deemed the place of supply. Note that this rule tends to catch clients off guard, as it often results in the highest HST rate being applicable to the supply. Explaining the reason for charging the higher rate of HST to your customers can be quite challenging.
- Rule 4: If Rule 3 does not apply because two or more participating provinces have the same rate, the place of supply will be the participating province where the supplier is located or that is closest in proximity to the supplier’s location.

BASIC CONCEPTS

Foreign exchange

- GST/HST on taxable supplies made in a foreign currency must be converted to the Canadian equivalent
- converted based on the value of the foreign currency on:
 - the day the tax is payable;
 - the day the consideration for the supply is paid;
 - day the foreign currency is acquired; or
 - average rate of exchange for the month in which the tax is payable.

- The ETA expressly states that the tax must be converted based either on the value of the foreign currency expressed in Canadian currency on the day the tax is payable, or on another day acceptable to the Minister.
- The CRA, in GST Memorandum 300-7-10, “Foreign Currency”, provides the following additional acceptable timing that may be used to convert foreign currency:
 - the day the consideration for the supply is paid;
 - the day the foreign currency is acquired; and
 - the average rate of exchange for the month in which the tax is payable.
- Dates of exchange other than the ones listed above may also be used, but must be approved in writing from the CRA prior to use.
- Foreign currency must be converted using either a Canadian chartered bank exchange rate, the Bank of Canada exchange rate, the exchange rate provided by the Canada Border Services Agency (“CBSA”) for import duty valuation purposes, or the exchange rate from the actual or usual source used for foreign currency translation. Where a person is required to pay a premium to obtain foreign currency for a particular transaction, any additional costs incurred associated with obtaining that rate must be included when translating the foreign currency to Canadian currency.
- Therefore, if a registrant is using the actual cost of currency (as opposed to the Bank of Canada monthly average) to translate foreign currency, the premium paid on a forward contract must be included in the base for converting tax payable.

BASIC CONCEPTS

RITC issues

- identifying a "large business"
 - exclusions
 - public service bodies and qualifying farm businesses
 - financial institutions which qualify as SLFIs

- Without a proper understanding of the term “large business”, it is possible for an organization, subject to the ITC recapture requirements, to incorrectly claim full ITCs on restricted expenses. A “large business” is defined as a business with annual taxable sales in excess of \$10 million in the fiscal year immediately preceding the recapture period (July 1 to June 30), that are made through a Canadian permanent establishment or associated Canadian permanent establishment (including zero-rated sales). Certain financial institutions, not including selected listed financial institutions, and persons associated with certain financial institutions are considered to be large businesses.
- A person or organization is not required to have a permanent establishment in Ontario, British Columbia (from July 1, 2010 to March 31, 2013) or Prince Edward Island to qualify as a large business. Therefore, a large business with a permanent establishment outside these participating provinces will be subject to the ITC recapture requirements on expenses incurred in Ontario, British Columbia (from July 1, 2010 to March 31, 2013), or Prince Edward Island (after April 1, 2013).
- It should be noted that public service bodies are not considered to be a large business. Similarly, a person involved in the business of farming, based on the federal *Income Tax Act* (“ITA”), is also excluded from the definition of a large business. Therefore, a university or college will not have to comply with the ITC recapture requirements. A business with annual taxable sales significantly less than \$10 million may be considered a large business by virtue of its relationship to an organization with annual taxable sales in excess of \$10 million and, therefore, may be subject to the recapture requirements.



GST AND UNIVERSITIES



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GST AND UNIVERSITIES

Public sector bodies

- includes
 - government (federal & provincial)
 - non-profit organizations
 - municipalities
 - school authorities
 - hospitals
 - universities and public colleges
- exemptions
 - fundraising activities
 - memberships
 - library privileges

- Organizations considered to be a public sector body include the following:
 - government (federal & provincial);
 - non-profit organizations;
 - municipalities;
 - school authorities;
 - hospitals;
 - universities and public colleges.
- Part VI of Schedule V to the ETA provides a long list of exemptions for supplies made through the public sector. Unlike the general charity exemption (for which supplies are presumed exempt unless an exception applies), unless a specific exemption can be identified, a supply made through a registrant public sector agency is presumed taxable.
- The following lists the various exemptions that apply to supplies made by a public sector body. Some of these will be expanded on in this section:
 - low value sales made by volunteers;
 - admissions to places of amusement for a nominal charge;
 - admissions to volunteer-operated gambling events;
 - programs for children, underprivileged and disabled individuals;
 - relief of poverty, suffering, or distress;
 - meal programs;
 - memberships; and
 - library privileges.

GST AND UNIVERSITIES

What is a university?

- a recognized degree granting institution
- any organization that operates a college affiliated with a degree-granting institution
- a research body of a degree-granting institution
- most supplies are exempt
- rebate may be available

- A “university” is a recognized degree-granting institution or an organization that operates a college affiliated with, or a research body of, such an institution, or an educational institution at the university level.
- A foreign-based institution may also qualify as a university provided it is a foreign-based degree-granting institution:
 - that grants degrees at least at the bachelor or equivalent level, and is licensed or otherwise authorized under the appropriate governmental agency or department in its home jurisdiction to do so;
 - that qualifies under the ITA as a “university outside Canada” for purposes of the tuition credit; or
 - whose degrees are accepted for entry into post-graduate studies in at least one Canadian university.
- Under the ETA, a university is listed as a public service body (“PSB”). It is also included in the definition of a public sector body, which consists of government agencies and public service bodies. Where a university is a registered charity for income tax purposes, it is considered to be a public institution. Most supplies made by a university will be subject to the exemption provisions affecting supplies made by public sector bodies, public service bodies or public institutions.
- In Ontario, a rebate equal to 67% of the GST paid and 78% of the provincial component of the Ontario HST, is available to universities or colleges that are established and operated otherwise than for profit. If a profit-motivated university offers approved courses, these courses are exempt. However, the school would not be able to claim a rebate.

GST AND UNIVERSITIES

Public service bodies

- includes
 - all public sector bodies other than government (federal & provincial)
- exemptions
 - nil consideration and direct cost

- A couple of exemptions are aimed specifically at “public service bodies”, which are defined to be public sector bodies, excluding federal and provincial governments:
 - non-profit organizations;
 - charities;
 - municipalities;
 - school authorities;
 - hospital authorities;
 - public colleges; and
 - universities.
- Supplies made for consideration which does not exceed direct cost or for nil or nominal consideration are exempt. “Nominal consideration” refers to an amount that is less than the direct cost of the goods or services provided. GST/HST does not apply to goods or services that are purchased for resale if the price charged is less than direct cost. “Direct cost” is the cost of material or parts making up the goods that are produced or manufactured. It includes any GST/HST, QST, PST, and any other taxes or duties paid but not recovered as an ITC. If supplies are purchased for resale, the direct cost of the goods or services is the purchase price. Direct cost does not include administrative or overhead expenses, or employee salaries that are incurred to provide the goods or services.
- For example, goods acquired by a university in Ontario for an HST-included price of \$113.00 (i.e., \$100 plus \$13 HST), and generally resold for an amount less than \$113.00, will be exempt, even though a portion of the HST may be recovered by the university as a rebate.
- Where goods are usually sold at an amount below direct cost, the sales are exempt. However, if the goods are usually sold at a mark-up but are being sold at cost or below cost to sell off excess stock, these sales will still be subject to tax.

GST AND UNIVERSITIES

Public service body exemptions

- exemptions
 - most supplies of real property
 - generally exempt
 - except
 - » land sold to an individual
 - » short term residential accommodation
 - » short-term commercial rentals
 - » licenses to use real property

- Most supplies of real property made by a public service body are GST/HST exempt. However, certain supplies of real property are excluded from the general exemption provision, including sales of residential property. The following discusses other exclusions from the exemption.
- The exemption does not apply to the sale of vacant land to an individual or a trust where all the beneficiaries are individuals. The exemption does not apply where the real property was used by the public service body in commercial activities. In such situations, a university or college must look at whether the property as a whole was used primarily in commercial activities.
- Short-term accommodations are taxable; essentially, this would include a lease or rental of residential accommodation to the same person for less than one month. If university or college residences are used for accommodations during a weekend convention, the rental fee charged would be taxable.
- Short-term rentals of property that are not residential property (i.e., commercial rentals), or any "license" to use real property, whether short-term or not, are taxable. Examples include:
 - the supply of ice time by a university at a hockey rink;
 - the rental of classrooms for a meeting; and
 - parking (even if for a period of more than one month).
- Where the rental is for continuous possession of one month or more, the supply is exempt, unless it is excluded under another provision. Limited access to the premises is also a characteristic of a license to use real property, which is taxable regardless of its length, in contrast to a lease. Other characteristics of a license include: limited right to sub-license the property; limited or no further real property interest in the property, and the likelihood that the license will extinguish upon sale of the property by the supplier.

GST AND UNIVERSITIES

Public institutions

- registered charity for income tax purposes
 - includes
 - universities or public colleges
 - school authorities
 - schools
- exemptions

- A “public institution” is a registered charity for income tax purposes, that is also a university, public college, school authority, hospital authority, or local authority that has been determined to be a municipality.
- Certain exemptions apply only to supplies made by public institutions and non-profit organizations. Exemptions specific to public institutions generally parallel exemptions available for supplies made by charities, though they are not as extensive.
- A general exemption covering supplies made by public institutions applies to any supplies of personal property or services, subject to an extensive list of exclusions some of which are noted below:
 - zero-rated supplies;
 - supplies of property used in commercial activities;
 - capital property used primarily in commercial activities;
 - goods for resale;
 - property leased, etc., in conjunction with real/immovable property;
 - catering contracts;
 - memberships;
 - performing artists;
 - recreational activities;
 - gambling activities;
 - courses and examinations;
 - admissions; and
 - fund-raising events.

GST AND UNIVERSITIES

Public institution exemptions

- available to PSBs that are also charities
- supplies are generally exempt
 - including
 - admissions to fundraising events
 - » donation receipt issued
 - some exceptions

- In addition to being able to take advantage of public sector and public service body exemptions, universities and colleges that are also registered charities may be entitled to certain exemptions available to public institutions.
- Supplies of personal property or services made by public institutions are generally exempt, however there are some exclusions. These exemptions generally parallel exemptions available for supplies made by charities, though they are not as extensive.
- A supply of admission to a fundraising event by a university or college that is a public institution, is an exempt supply where at least part of the consideration for the supply may reasonably be regarded as a donation in respect of which a charitable receipt may be issued, or could be issued if the recipient were an individual. Similar supplies made by universities or colleges that are not also registered charities are taxable.
- For example, if as part of its annual fund raising effort, a university (that is a public institution) is selling tickets to a dinner and concert event for \$100 per person and, as noted on the tickets, an income tax receipt will be issued in the amount of \$75. The full amount of the consideration received from the sales of these tickets (i.e., \$100) will be exempt for GST/HST purposes.

GST AND UNIVERSITIES

Public institution exemptions

- exceptions
 - property used in commercial activities
 - goods for resale
 - catering contracts
 - memberships

- While supplies provided by public institutions are generally exempt, there are some exceptions relevant to universities and colleges worth noting:
- *Sale of property used in commercial activities* - The exemption does not apply where public institutions sell property that was used, immediately before the time tax would be payable in respect of the supply, in the commercial activities of the institution. Inventory acquired specifically for the purpose of resupply is also not covered by this exclusion, resulting in the retention of any exempt status that may apply to the supply.
- *Goods for resale* - Tangible personal property acquired, manufactured, or produced by a public institution for the purpose of making a supply of the property are excluded from the general exemption. This provision was intended to apply to instances where a public institution sets up a business, such as a retail store (e.g., a university book store). This puts the public institution on an equal footing with other businesses that it may compete with. As a result, where a university or college purchases new books for resale, GST/HST will apply. In addition, the sale of yearbooks by the university or college to students will be taxable.
- *Catering contracts* - Catering by a university or college for its own activities is generally not taxable. However, this exemption does not apply to property or a service supplied under a contract for catering an event for third parties. Therefore, where the food services department of a university or college provides catering services to third parties, whether the functions are held on or off campus, these services are taxable.
- *Memberships* - Supplies of memberships that include a right to participate in a recreational or athletic activity, or use facilities, at a place of amusement are taxable. The exemption is retained only where the value of these supplies is insignificant relative to the consideration payable for the membership.

GST AND UNIVERSITIES

Public institution exemptions

- exceptions
 - seminar and conference admissions
 - capital property primarily in commercial activity
 - property supplied with real property
 - recreational activities
 - performing artists

- *Seminar and conference admissions* – The supply of admissions in respect of a seminar, conference, or similar event provided by a university or college is taxable. The exclusion puts public institutions on an equal footing with other businesses and organizations providing similar supplies as part of their commercial activities
- *Capital property used primarily in commercial activities* – Capital property used primarily in commercial activities of the institution immediately before the time tax would be payable in respect of the supply is not exempt.
- *Property supplied with real property* - Where a public institution makes a taxable supply of real property by way of lease, licence, or similar arrangement, any other property supplied in conjunction with the taxable lease, licence, etc., is also taxable. For example, the rental of audio-visual or gym equipment in conjunction with a taxable rental of a room or rooms in a school will also be taxable.
- *Recreational activities* - Supplies by public institutions of services involving, or memberships or other rights entitling persons to, supervision or instruction in any recreational or athletic activity are generally taxable.
- *Performing artists* - The professional services of performing artists supplied by a public institution to a person who makes taxable supplies of admissions in respect of the performance in which the artists perform are taxable.
- Other exceptions to the general exemption for public institutions include :
 - supplies that are zero-rated under the ETA, Schedule VI;
 - supplies made by a public institution that are deemed by the legislation to have occurred;
 - a right to play or participate in a game of chance;
 - service of instructing individuals in, or administering examinations in respect of, any course supplied by a vocational school, school authority, public college, or university. Such supplies, however, may be exempt as educational services.

GST AND UNIVERSITIES

Education services

- supplies specifically exempted
 - credit courses
 - professional designation courses
 - vocational courses
 - French and English as a second language
 - university meal plans
 - mandatory course materials and fees

- Where supplies made by universities or colleges do not qualify for public sector exemptions, these services may be exempt as education services.
- Exemptions provided for educational services cover both the supply of specified instructional courses and programs, as well as a list of related services provided to students, including certain additional or mandatory materials fees, busing services, food services, etc. Many of the exemptions are contingent on the supply being made by, or to, a university or college or like entity.
- Examples of exempt supplies related to universities and colleges are as follows:
 - credit courses for diplomas or degrees;
 - courses in respect of recognized professional or trade designations;
 - a service of instructing individuals in, or administering examinations in respect of, courses leading to certificates, diplomas, or licenses, or classes in respect of licenses;
 - a service of instructing individuals or administering examinations in respect of French or English second-language courses; and
 - supply by a university or college of meals under certain meal plans to students.
- University or college meal plans are generally exempt, as long as they meet the following conditions:
 - the supply is a meal;
 - it is made to a student enrolled at a university or college where the meal is provided;
 - the plan is for a period of not less than one month; and
 - the student acquires a right for a single consideration to receive, at a restaurant or cafeteria at the university or college, not less than 10 meals weekly throughout the period.
- This exemption does not depend on whether the student purchasing the meal plan lives on or off campus. However, the meal plan must be for use by students at a campus cafeteria or restaurant. A qualifying meal plan would not cover purchases at an on-campus convenience store.



RECOVERY OF TAX



References:

- Canada Revenue Agency GST/HST Memorandum 8.4, August 2012, “Documentary Requirements for Claiming Input Tax Credits”.
- Canada Revenue Agency, GST Memorandum Series 13.4, “Rebates for Printed Books, Audio Recordings of Printed Books, and Printed Versions of Religious Scriptures”.

RECOVERY OF TAX

Entitlement to recover tax subject to certain conditions

- taxable supplies must be acquired
 - by the recipient
 - person legally obligated to pay for the supply
 - for use in the recipient's commercial activities
- documentary requirements
 - must be obtained prior to claiming an ITC
 - prescribed information required
 - ITCs may be denied

- In order that tax not be incorporated into the cost of goods or services under a value-added tax system, registrants involved in commercial activities are generally permitted to recover tax paid by way of an ITC in respect of expenses relating to their commercial activities, subject to certain conditions.
- The fact that tax is collected and remitted on sales does not automatically provide a person with the right to claim ITCs for tax paid. Before filing a claim, organizations must address a number of issues prior to recovering the tax to avoid the possibility of the recovery being denied during the course of an audit.
- Firstly, only the recipient of a supply is permitted to recover the tax. The recipient of a supply is generally the person who has the legal obligation to pay for the goods or services (usually indicated as the "bill to" on an invoice). In addition, the goods or services supplied to the recipient must have been acquired for consumption, use or supply in a commercial activity carried on by the recipient.
- Organizations who want to recover tax paid must be able to show that tax was paid to a registrant. A person is therefore required to obtain certain supporting documentation from the supplier to support their right to claim an ITC.
- Note that organizations involved in non-commercial activity are also subject to these rules when claiming rebates. Whether dealing with research expenses or not, if this activity is part of commercial activity, ITCs can be claimed as long as the documentary requirements are met. Where all of the required information is not obtained prior to claiming an ITC or rebate, an organization's claim could be denied and they could be subject to interest during the course of an audit.

RECOVERY OF TAX

INFORMATION REQUIRED	X < or = \$30	\$30 < X < \$150	X = or > \$150
Name of supplier	✓	✓	✓
Invoice date	✓	✓	✓
Amount payable	✓	✓	✓
Amount of tax paid		✓	✓
Supplier's GST/QST number		✓	✓
Recipient's name			✓
Description of property or service			✓
Terms of payment			✓

- Other than for “specified persons” (whose time limit is usually two years) the time limit for claiming ITCs or rebates is generally four years but is reduced to two years for tax paid or remitted in error. A specified person includes a person whose threshold amounts, for each of the fiscal years that includes the period the tax was payable and the previous fiscal year, exceed \$6 million. Excluded from this are persons whose supplies were all or substantially all taxable (i.e., engaged exclusively in commercial activity) during the two fiscal years preceding the year the tax was payable.
- For purchases over \$30, registrants are generally required to obtain, among other things, the GST registration number of the supplier and the amount of tax paid on the invoice, or an indicator that the price is “GST/HST-included” at a rate of 5%, 13% or 15%.
- The name of the supplier is required for purposes of verifying that GST/HST is being charged by a registrant and an invoice date is used to help determine the time period within which an ITC or rebates may be claimed to recover the tax paid.
- A description of the property or service being supplied is also required to ensure that ITCs or rebates are claimed on eligible expenses only (i.e., excludes club memberships and items for the exclusive personal use of an employee, and limited to 50% of meals and entertainment expenses) also for determining whether tax was properly charged on the supply.
- Under the CRA’s current policy, it is the purchaser’s responsibility to validate the registration number of a supplier for purposes of establishing an entitlement to an ITC.
- Terms of payment refer to such items as the time payment is due, how payment is to be made, whether there is a late penalty or early payment discount, and other conditions which may affect the tax liability or its timing.

RECOVERY OF TAX

Who can claim rebates?

- selected public service bodies – GST rates (federal component)
 - public colleges and universities (non-profit) – 67%
 - charities – 50%
 - hospital authorities – 83%
 - school authorities (non-profit) – 68%
 - municipalities – 100%

- Selected public service bodies (GST/HST registered or not) may claim a rebate at a prescribed percentage for non-creditable tax charged on taxable property or services. The term PSB includes charities, the MUSH sector (universities, colleges, municipalities, schools and hospitals) and other non-profit organizations that meet certain requirements.
- “Non-creditable tax charged” includes tax paid that is not eligible for an ITC or, in certain cases, deemed to be paid (such as in the case of employee allowances and reimbursements). It excludes tax for which the body may claim an ITC, or for which a rebate or remission is available under some other provision of the legislation or another statute, or which is adjusted, refunded or credited to the person by credit/debit note.
- With the different rebate percentages available, additional effort is required to calculate those rebates. For example, a university that purchases new desks costing \$10,000, with an additional \$1,300 for Ontario HST, will be required to calculate a rebate of 67% of the 5% federal component of the tax (67% of \$500), and 78% of the 8% provincial component (PVAT) of the tax (78% of \$800).

RECOVERY OF TAX

Rebates: Federal vs. Provincial

Public Service Body	GST	Rebate Rates for the Provincial Part of the HST						
		Fed	ON	NS	NB	NL	PEI	
University/ Colleges	67%	78%	67%	0%	0%	0%	47%	
Hospital Authority	83%	87%	83%	0%	0%	0%	55%	
School Authority	68%	93%	68%	0%	0%	0%	47%	
Charities/NPOs	50%	82%	50%	50%	50%	35%	50%	
Municipalities	100%	78%	57.14%	57.14%	25%	0%	50%	

- PSBs that operate in multiple capacities, such as a university that also operates a hospital authority, must apportion their rebates to take into account the appropriate rate — in this case, 67% for tax payable on university-related expenses and 83% for those that relate to hospital activities.
- Participating provinces permit certain PSBs to recover a portion of the provincial component of the HST (“PVAT”). However, PSBs have to separately track the federal and provincial parts of HST to make a PSB rebate claim as the rebate on the federal component is different than rebate on the provincial component. A university in Ontario would be permitted to claim a PSB rebate using a blended rate of 73.77% (5% portion @ 67% and 8% portion @ 78%).
- In addition, public service bodies in certain participating provinces must calculate separate rebates for the federal and provincial component of the HST for multiple capacities. For instance, a public service body located in Ontario, operating in two separate capacities, may be required to calculate a total of four separate rebate amounts.
- If a PSB is not a resident of a particular participating province, they are not eligible for a PSB rebate of the provincial part of the HST that applies in that province. PSBs not resident in a participating province can claim a PSB rebate only for the federal part of the HST incurred in participating provinces in addition to any PSB rebate for GST incurred. If a PSB is a resident in more than one province, one of which is a participating province, you have to calculate the PSB rebate for the provincial part of the HST based on the extent you intend to consume, use or supply property or services in the course of your activities in each province in which you are resident.

RECOVERY OF TAX

Purchases eligible for the public service bodies' rebate

- general operating expenses
- property and services used in exempt activities
- capital property – cannot claim rebate when change in use

- Eligible expenses include general operating expenses (rent, utilities and administration expenses) for which you cannot claim ITCs. Other eligible expense examples include most allowances and reimbursements paid to employees (exempt activities).
- Property and services used, consumed or supplied in exempt activities.
- Capital property, however, when the use of capital property is changed from primarily commercial activities to primarily non-commercial activities, a rebate cannot be claimed. The reason being you have to calculate the basic tax content of the property for such a change in use and this calculation already takes the PSB's rebate into account.

RECOVERY OF TAX

Non-eligible expenses

- club memberships
- tobacco products and alcoholic beverages
- property and services
 - to provide long-term residential accommodation
 - supply a parking space
 - supplied to another person
 - supply of real property
 - become a taxable benefit



- Certain purchases are not eligible for public service bodies' rebate, including:
 - memberships in a dining, recreational, or sporting club;
 - supply of tobacco products and alcoholic beverages without the requirement to collect the GST/HST (unless included in the price of a meal);
 - property and services acquired to provide long-term residential accommodation (one month or more), unless more than 10% of the accommodation is restricted to seniors, youths, students, or individuals with a disability or with limited financial resources who qualify for reduced rents;
 - property and services acquired primarily (more than 50%) for the supply of a parking space made available to residential tenants unless more than 10% of the residential accommodation associated with the parting space is restricted to seniors, youths, students, or individuals with a disability or limited financial resources who qualify for occupancy or reduced rents;
 - property and services acquired primarily for making a supply of real property to another person for use by that person in leasing residential property on an exempt basis (incidental parking), unless that other person is a PSB and more than 10% of the residential property is restricted to seniors, youths, students, or individuals with a disability or limited financial resources who qualify for occupancy or reduced rents under a means or income test;
 - property or services supplied to another person, if the property or service is a taxable benefit to that person for income tax purposes. Additionally, the PSB does not have to remit any GST/HST on the supply.

RECOVERY OF TAX

Special concerns for universities

- commercial activity (full ITCs)
- exempt activity (partial rebates)
- combined activity
 - allocation required
- capital personal property (primary rule)
- capital real property (primary rule)

- In order for an organization to claim an ITC in respect of GST/HST paid for goods or services, the supply must have been acquired for consumption, use or supply in a commercial activity carried on by the registrant. Generally, if substantially all (90% or more) of a supply is acquired for consumption, use or supply in the course of a commercial activity, a full ITC may be claimed.
- If substantially all of a supply is acquired for exempt activities, no ITC may be claimed. However, a university or college would generally be eligible to claim the 67% rebate (for GST or federal portion of the HST) and in your situation, 78% rebate (for the Ontario provincial component of the HST).
- Where goods and services are acquired partly for use in commercial activity and partly not, it is necessary to allocate the tax available for credit between commercial and non-commercial activities in order to determine the amount of tax recoverable.
- A full ITC is available to universities or colleges for GST/HST paid on the acquisition or import of capital personal property, and improvements to that capital property, if the property is used more than 50% in commercial activity. If not, no ITC is available, and then tax is generally not required to be collected on the ultimate disposition of that property.
- A full ITC is also available for GST/HST paid on the acquisition of capital real property, and improvements to that property, if the property is used more than 50% in commercial activity. If not, no ITC is available (but the rebate is). Most sales of real property used other than primarily in commercial activity by a public service body are exempt. In order to determine whether or not a university or college is entitled to claim ITCs on capital real property, it will be necessary to calculate the extent of use of the entire parcel (legal description) in commercial activities rather than the extent of use of a particular portion of the property (i.e., entire building versus a floor in the building).

RECOVERY OF TAX

Printed book rebate

- GST
 - available on printed books acquired by specified persons
 - ordinary common law meaning
 - excludes
 - newspapers
 - some magazines or periodicals
 - books designed primarily for writing on
 - agendas, calendars, syllabus, timetables

- The legislation provides for a 100% rebate of GST paid on printed books purchased by specified persons. The definition of specified persons includes universities and colleges.
- However, the provincial component of the HST payable on a qualifying book may be rebated by the vendor at the point of sale. The effect is that qualifying books supplied in a participating province are only taxed at 5%. If the vendor collects tax at the 13% HST rate, the purchaser may claim an ITC for the full 13% where the book is for use in commercial activities. If the purchaser is not eligible for a full ITC, a rebate may be claimed for the provincial component of the HST within four years from the time tax became payable by submitting a general rebate application (form GST 189).
- Goods eligible for the rebate are:
 - printed books or updates of such books;
 - audio recordings all or substantially all of which are spoken readings of printed books; and
 - bound or unbound printed versions of religious scriptures.
- The term "printed book" is ascribed its ordinary meaning, but is defined to exclude:
 - a newspaper, magazine or periodical acquired otherwise than by subscription;
 - a magazine or periodical in which the printed space devoted to advertising is more than 5% of the total printed space;
 - a book designed primarily for writing on; and
 - an agenda, calendar, syllabus, or timetable.
- The rebate is only available for books acquired for use other than in a supply by way of "sale". The term "sale" includes books acquired to sell to others, to be given as a gift or where ownership is transferred at no consideration.

RECOVERY OF TAX

Common issues

- insufficient documentation
- use of a factor to claim ITCs
- not recipient of the supply
- non-resident vendors
- posting errors
- provincial sales tax on insurance
 - Ontario

- Some of the most significant audit assessments relate specifically to a person's failure to obtain sufficient documentation prior to claiming an ITC or rebate on taxable purchases used to provide taxable goods and services. This may be as simple as not having the supplier's GST registration number on hand prior to claiming the credit/rebate, or can involve issues relating to who is the true recipient of the supply. In addition, unless tax is charged by a registrant, and the appropriate documentation is obtained, ITCs/rebates cannot be claimed. An organization should never assume an invoice includes tax and claim an ITC/rebate at 5/105 (or 13/113, 14/114, or 15/115 for HST) unless the appropriate documentation is available. If tax is not paid to a registrant, an organization is not generally eligible to recover the tax.
- ITCs/rebates are often claimed on invoices issued in the wrong name or issued to another organization within a closely-related group of registered taxpayers (e.g., where the supplier has invoiced the wrong party). Auditors may deny ITCs/rebates claimed in respect of these invoices.
- Exposures occur where taxes are claimed on invoices from non-registrants, as well as from registrants whose transactions are poorly documented. Non-resident vendors, in particular, are not always familiar with Canadian rules and regulations. Even if they are registered, they may not provide sufficient documentation to support a recipient's claim for ITCs/rebates.
- Another common error related to the recovery of tax is the posting of non-GST/HST amounts as debits to the GST/HST account. These types of posting errors will result in an overstatement of ITCs/rebates. For instance, U.S. state taxes may be incorrectly posted to the GST/HST account.
- Certain insurance premiums with respect to risks in Ontario will continue to be subject to Ontario Retail Sales Tax at a rate of 8% despite the harmonization that took place in Ontario on July 1, 2010.

RECOVERY OF TAX

Sample invoice – Ontario tax on insurance

Marsh Canada Limited

- Exposure: claimed PSB rebate on Ontario tax on insurance premiums paid to Marsh Canada Limited.



INVOICE

Page 1 of 1

000471 09/26/2016

Marsh Canada Limited - Head Office
120 Bremner Boulevard, Suite 800
Toronto, Ontario M5J 0A8

Billed To: McMaster University
Gilmour Hall, Room 304
1280 Main Street West
HAMILTON, ON L8S 4K1
CA

Client: McMaster University

INVOICE TOTAL: CAD	35,802.00
Account Number:	0035650033408700
Invoice Number:	0035722652379
Billing Date:	27Sep2016

For policy inquiries call your client executive in the local Marsh office
For premium finance or accounting inquiries call 1-866-809-0997

GST Reg. No. - 871956389 RT0001
QST Reg. No. - 871956389 RT0001

Invoice Detail

Placement/Service	Type	Policy / Reference	Effective / Expiry	Amount
Professional Liability Policy	END	SRD462611	01Jan2016 - 01Jan2017	33,150.00
Taxes PST-ONT NON RECOVERABLE				2,652.00
Invoice Total		CAD		35,802.00

COMMENTS: 2016 Visiting Medical Students Balance and Deposit

IMPORTANT NOTICE: Detach and remit this portion with your payment

INVOICE NUMBER ACCOUNT NUMBER PAYMENT DUE

0035722652379 0035650033408700 IMMEDIATE

Currency	INVOICE TOTAL	Amount Paid
CAD	35,802.00	

SEE REVERSE SIDE FOR COURIER DESK AND
WIRE PAYMENT INSTRUCTIONS

BY REGULAR MAIL
OR
ANY CANADA POST MAIL
SERVICE THAT DOES NOT
REQUIRE A SIGNATURE

Marsh Canada Limited
P.O. Box 9741
Postal Station A
Toronto, Ontario
M5W 1R6

STD = Standard Placement or Service invoice
ADJ = Adjustment END = Endorsement
CAN = Cancel

PROTECT YOUR POLICY!
Any non-payment of premium
may result in the cancellation of
your insurance policy.

RESTRICTIONS AND LIMITATIONS



References:

- *Common Audit Exposures*, Chapter 10, “Meals and Entertainment Expenses”.

RESTRICTIONS AND LIMITATIONS

100% restriction

- club membership fees
- exclusive personal use
 - GST exceptions
 - exceptions
 - certain non-cash gifts/awards

- Since the legislation was designed to provide a recovery of tax on expenses relating to an organization's commercial activities, it generally denies the recovery of tax where expenses are somewhat personal in nature. Many of these restrictions can also be found in the Canadian *Income Tax Act*.
- There is a 100% ITC and rebate restriction for initiation fees, membership fees or dues to any club, the main purpose of which is to provide dining, recreational or sporting facilities. These provisions parallel the ITA, which also denies a deduction for these types of expenses.
 - For example:
 - golf club membership dues;
 - business clubs;
 - fitness club memberships; and
 - certain Board of Trade memberships.
- There is also a 100% ITC and rebate restriction for tax paid on supplies purchased for the exclusive personal use or consumption of an officer or employee, or someone related to an officer or employee, of an organization.
- Employers are able to give employees non-cash gifts, on a tax-free basis, for special occasions such as Christmas, a wedding or similar events, where the total cost of the gifts is \$500 or less a year. The total value in excess of \$500 will be taxable. In addition, non-cash employee long service/anniversary awards may also qualify for non-taxable status to the extent that the total value is \$500 or less, as long as they are only provided every five years. Any amount of the award in excess of \$500 will be taxable. Service and anniversary awards are separate from the non-cash gifts noted above. Therefore, an employer may be entitled to recover the tax paid on a special occasion gift and an anniversary award given to the same employee, as long as each non-cash gift does not exceed the \$500 limit.

RESTRICTIONS AND LIMITATIONS

Most expenses subject to 50% restriction

- follows the *Income Tax Act* restrictions

- ITCs are restricted to 50% of the tax paid with respect to meals and entertainment expenses, where the deductibility of the expense is restricted to 50% under the ITA.
- In addition to the common business meal expenses, included within the scope of the limitation are:
 - tickets to sporting events, such as hockey, baseball and football;
 - tickets to theatres and concerts;
 - boat cruises and admissions to places of amusement; and
 - the cost of box rentals at arenas and stadiums.
- The restriction applies to payments made directly by a registrant, as well as to allowances and reimbursements paid in respect of these types of expenses to employees.
- Registrants may choose to treat this restriction in one of two ways. ITCs may be claimed in the reporting period in which they are incurred. However, the registrant is required to make an adjustment at the end of its fiscal year to recapture 50% of the tax claimed in the prior year. Or, an organization may choose to simply record the recovery net of the restriction during the year and thereby avoid the year-end calculation altogether.

RESTRICTIONS AND LIMITATIONS

Exceptions to the 50% restriction

- full ITCs generally available to
 - public institutions
 - charities
 - does not extend to
 - municipalities
 - large businesses public institutions
- restriction does not apply to rebates

- The 50% meals and entertainment expense restriction does not apply to ITCs claimed by a charity or public institution (i.e., a charity that is a school authority, hospital authority, public college, university and certain local authorities deemed to be municipalities).
- Such bodies may claim ITCs, to the extent otherwise entitled, in respect of tax paid on such expenses without restriction. A charity or public institution that is a registrant may generally claim full ITCs for tax paid on food, drink and entertainment expenses where they are incurred in the course of commercial activities.
- A municipality (other than an organization that is determined to be a municipality) is not considered to be a public institution; as a result, it is subject to the 50% restriction on ITCs for meals and entertainment.
- The meals and entertainment expense restriction does not apply to rebate claims made by public service bodies. As a result, organizations that are entitled to claim rebates in respect of tax paid on meals and entertainment relating to non-commercial activities are not required to adjust their rebate claims for the 50% restriction. This applies to all organizations that claim rebates and not just charities and public institutions.



REIMBURSEMENTS AND ALLOWANCES



References:

- Canada Revenue Agency, GST/HST Memorandum 9.3, June 2012, “Allowances”.
- Canada Revenue Agency, GST/HST Memorandum 9.4, June 2012, “Reimbursements”.

REIMBURSEMENTS AND ALLOWANCES

Prescribed simplified factor – GST/HST

- available for expenses incurred in Canada
 - generally 4/104
 - 12/112 or 14/114 where all or substantially all the expenses were subject to HST
 - recapture requirements do not apply to PSBs

- A charity or public institution is deemed under the legislation to have paid tax where an expense was reimbursed to an employee or volunteer who paid tax in respect of a property or service that was acquired or imported for use in the activities of the person. As an alternative to meeting the general documentary requirements, which are often lacking on expense reports, organizations may choose to use the prescribed simplified factors in order to determine ITCs and rebates.
- For GST/HST purposes, the factors are:
 - 4/104 where all or substantially all of the expenses are taxable (other than zero-rated) supplies; or
 - 12/112 (ON) and 14/114 (NS, NL, PE & NB) where all or substantially all (90% or more) of the supplies for which the reimbursement is made are taxable supplies acquired in participating provinces.
- The factor is set at 4/104 (or 12/112 or 14/114 in the harmonized zone) to take into account tips and other non-taxable expenses. Other than the factors used for expenses incurred in the harmonized zone, the factor does not vary depending on which province the expenses were incurred (e.g., Manitoba vs. Alberta). However, the factor is not available for expenses incurred outside of Canada.
- If the factor is used, it must be used for an entire fiscal year and must be applied consistently within each category of reimbursed expenses. It cannot be used to “cherry pick” GST/HST for ITC purposes where particular invoices or receipts do not adequately disclose GST/HST charged or meet other documentary requirements. Nor may it be used inconsistently from employee to employee depending on the degree of documentation provided by a particular employee.

REIMBURSEMENTS AND ALLOWANCES

Allowances paid to employees or volunteers

- allowance must be reasonable under the Income Tax Act
- prescribed simplified factors
 - where 90% or more of allowance related to taxable supplies
 - 5/105 for GST
 - 13/113 or 15/115 subject to HST
- recapture requirements do not apply to PSBs
- 50% meals and entertainment restriction does not apply to public institutions

- A similar rule applies to allowances paid by a charity or public institution, deeming tax to have been paid on the underlying expense in respect of qualifying allowances paid to an employee or volunteer.
- A person is deemed to have paid tax determined by the following factors where all or substantially all (90% or more) of an allowance relates to expenses for taxable supplies (other than zero-rated supplies):
 - 5/105 for GST purposes ; or
 - 13/113 (ON) or 15/115 (NS, NL, PE & NB) for HST purposes.
- For HST purposes, where 90% or more of the supplies related to an allowance are made in a particular participating province, that province's factor should be used to claim the ITC/rebate. If, however, 90% or more of the supplies the allowance relates to are made in two or more participating provinces then the factor used to claim the ITCs/rebates is the lowest factor available for the provinces where the supplies are made.
 -
- In order for tax to be recoverable with respect to an allowance, it must be:
 - paid in respect of supplies acquired in Canada at least 90% of which are taxable;
 - deductible for income tax purposes; and
 - considered reasonable by the employer at the time they are paid.
- Examples of reasonable allowances that may be eligible for ITCs/rebates include: board and lodging allowances for special work sites or remote locations; overtime meal allowances; allowances for special uniforms/clothing; and car allowances.
- The recapture requirements do not apply with respect to allowances paid by an organization in the public sector. In addition, the 50% meals and entertainment restriction does not apply to allowances paid by a public institution.

REIMBURSEMENTS AND ALLOWANCES

Automobile allowances

- based only on business kms
- rate per km is reasonable
 - 54 cents per km for the first 5,000 kms
 - 48 cents per additional km
- no additional automobile reimbursements

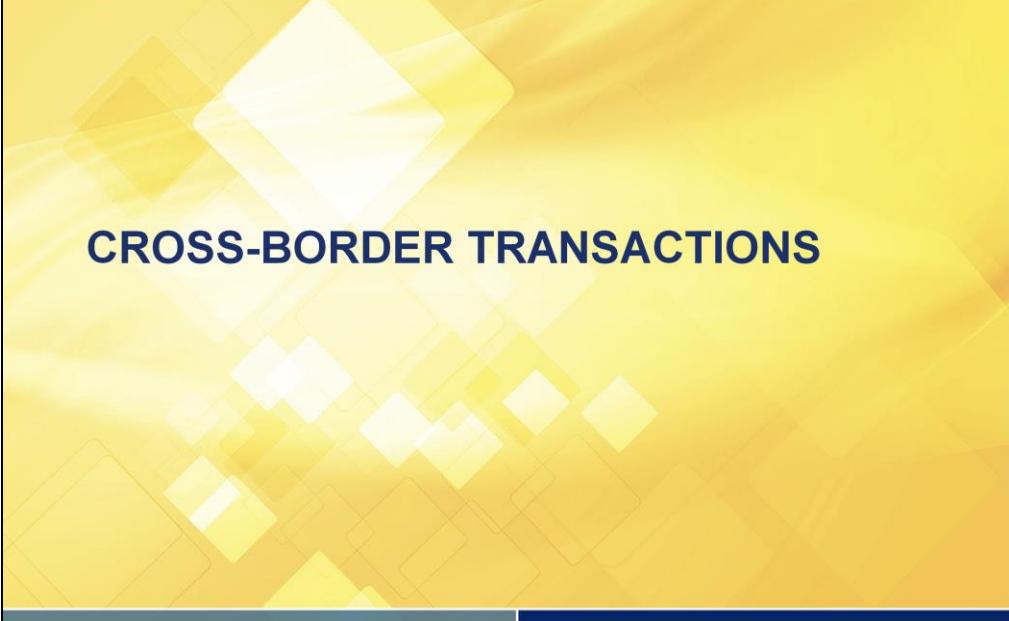
- No ITCs/rebates may be claimed in respect of an allowance, unless the allowance is considered reasonable having regard to the nature of the employer's commercial activities.
- Automobile allowances are considered to be reasonable where:
 - the allowance is based solely on the number of business kilometres driven;
 - the rate per kilometre is reasonable; and
 - the recipient of the allowance is not reimbursed in whole or in part for automobile expenses, in addition to the allowance.
- Flat rate periodic allowances (e.g., \$400 per month) generally will not be considered reasonable.
- Effective January 1, 2001, where an employee is paid a combination flat rate and reasonable per kilometre allowance, no ITCs/rebates are allowed for either the per kilometre allowance or the flat rate portion.
- The 2017 tax-deductible per kilometre allowance limits for GST/HST purposes are 54 cents per kilometre for the first 5,000 kilometres, and 48 cents per additional kilometre. These rates are unchanged from the 2016 rates. The limits are each 4 cents higher in the territories.

REIMBURSEMENTS AND ALLOWANCES

Company credit/procurement cards

- use of derived factors
 - documentary requirements
 - inaccurate computation

- The CRA's view is that an expense made by an employee on a company credit/procurement card is an expense incurred by the employer directly and must, therefore, be supported by the appropriate documentary evidence. However, ITCs and rebates are often claimed on expenses purchased through the use of a company card based on a factor, such as 5/105, 13/113 or 15/115 of the amount paid on the card statements. There are two concerns regarding the use of factors to claim ITCs and rebates on card purchases: inadequate documentation and inaccurate computation.
- Firstly, a registrant may not claim ITCs and rebates unless it has first obtained certain supporting documentation. This information is generally not present on the card statement. As a result, registrants should ensure that receipts are maintained containing the required prescribed information.
- Secondly, using a derived factor will result in an overstatement of ITCs and rebates where non-taxable amounts, such as provincial sales tax, tips, and non-taxable expenses, are included in amounts paid. Where documentary requirements have been met, the use of a factor to extract the actual tax paid should reflect these non-taxable amounts. For example, where British Columbia Provincial Sales Tax is included in a purchase, a factor of 5/112 will extract the actual amount of GST paid. In addition, even where a factor is designed to accurately extract the tax based on the taxes that should have been charged or to reflect other non-taxable amounts included in a supply, exposures will be created where a supplier fails to charge tax correctly, since the factor will extract tax based on the assumption that the supplier has correctly charged tax.
- Administratively, the CRA will permit the use of the simplified factors only where the company and employee are jointly and severally liable for payment of a credit card. In such cases, the payment can be treated as an employee reimbursement, and is eligible for the simplified factor method. For GST/HST purposes, the CRA considers the payment of the credit card statement to be an employee reimbursement, allowing the employer to claim an ITC or rebate using the simplified factor of 4/104 (GST) or 12/112 and 14/114 (HST).



CROSS-BORDER TRANSACTIONS



CROSS-BORDER TRANSACTIONS

Importation of goods - GST

- 5% GST on the value of goods imported into Canada
 - GST collected by the CBSA on behalf of the CRA
 - payable by importer of record
 - tax base of imported goods
- potential for double tax if goods supplied by registered non-resident
- no provision to self-assess tax on imported goods

- To ensure that imports are taxed in the same way that domestic purchases would be, imports are subject to GST/HST. GST is collected at the border by the CBSA, on behalf of the CRA, based on the value for customs duty. GST is, therefore, imposed at the rate of 5% on the value of goods imported into Canada, and is payable by every person who is liable under the *Customs Act* to pay customs duty. The effect of this rule is to require the importer of record to pay GST on taxable goods brought into Canada.
- The value on which GST is payable is generally the transaction value of the goods, which is basically the price paid or payable for the goods, subject to certain additions, including customs duties, countervailing or anti-dumping duties, and excise taxes. However, since certain goods are duty-free or are subject to remission orders (i.e., the imposition of customs duty is cancelled by statute or regulation), GST on goods of this nature is payable by the person (i.e., importer of record) who would be liable to pay duty if the goods were dutiable.

CROSS-BORDER TRANSACTIONS

Importation of goods - GST

Notes continued from previous page

- The application of GST to goods brought into Canada is not dependent on the tax status of the supplier (i.e., registered or not) or the person importing the goods. Rather, it is determined by the tax status of the goods being imported. As a result, it is possible to pay tax twice on the same goods: once to the CRA as the importer of record, under Division III; and second, to a non-resident registered supplier, under Division II. A GST/HST-registered organization, importing goods for use in its commercial activities, may recover both amounts of tax as ITCs. However, organizations providing exempt supplies (e.g., universities and colleges) are ineligible for ITCs and are advised to avoid this situation by having the supplier act as importer of record.
- In addition, it is important to note that the ETA does not provide a mechanism for organizations to self-assess tax on goods brought into Canada, given that the government believes that tax will always be paid on such goods at the time of import

CROSS-BORDER TRANSACTIONS

Services and intangible property - GST

- self-assessment generally required under Div IV
 - objective
 - examples of taxable supplies
 - exception:
 - exclusive use in commercial activity
 - generally 90% or more

- It is impractical, if not impossible, for the CRA to collect tax on imported services and intangible properties at the border. Instead, imported services and intangibles are taxable on a self-assessment basis in accordance with the imported taxable supply rules (Division IV).
- The main objective in taxing imported services and intangible property is to ensure that persons engaged in non-commercial activities cannot avoid tax on, for example, engineering, management, data processing, and other services for use in Canada by acquiring such services outside Canada or from unregistered non-resident suppliers. The CRA has also ruled that GST/HST applies to training services rendered in Canada by an unregistered non-resident and to charges for advertising a Canadian employment opportunity in a foreign publication. Common examples of imported taxable supplies of IPP include intellectual property (such as patents, trade secrets, trade-marks and trade names), contractual rights, options, and software.
- However, tax does not need to be self-assessed on:
 - services or intangibles purchased for the exclusive consumption, use or supply in the commercial activities of a registrant;
 - services or intangibles purchased for consumption, use or supply in the course of activities engaged in exclusively outside of Canada;
 - services or intangibles in respect of real property situated outside Canada; or
 - intangible property that may not be used in Canada.
- Administratively, the CRA interprets exclusive use as 90% or more. The exclusion from the tax on services imported for use exclusively in commercial activities ensures registrants do not have to self-assess tax on an importation where they would otherwise be entitled to recover any tax paid by claiming ITCs.

CROSS-BORDER TRANSACTIONS

Self-assessing HST on imports

- required by non-commercial organizations
- supplies brought into a province

- Although GST is collected on goods imported into Canada, the provincial component of the HST is not collected at the border on commercial imports into the harmonized provinces from places outside Canada. Supplies that are made outside a participating province and that are brought into a participating province from outside Canada or from a non-participating province may be subject to self-assessment of the provincial component of the HST. Generally, the self-assessment rules apply to persons engaged in non-commercial activities and consumers who have not been charged the provincial component of the HST by the supplier.
- Furthermore, registrants who are entitled to claim full ITCs are not required to self-assess the provincial component of the HST on goods imported into the harmonized provinces, unless it is a specified expense for ITC recapture purposes. Since a public service body, including a university or college, does not have to comply with the ITC recapture requirement, a self-assessment under these rules will not be required by these organizations.
- In contrast, tax must generally be self-assessed on imports into the participating provinces by persons who are not entitled to claim full ITCs, including non-commercial organizations, such as universities and colleges.

CROSS-BORDER TRANSACTIONS

Sample invoice – Imported services

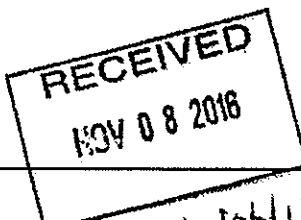
Citrix Systems Inc.

- Exposure: GST/HST was not self-assessed on imported taxable supply acquired from Citrix Systems Inc.



1 of 5

Invoice



RECEIPT # 10411

Billing Address
McMaster University
Accounts Payables DTC-405
1280 Main St W
Suite 20
HAMILTON, ON L8S 4L8
Canada

Total Cost:
Freight: 0.00 USD
Sub Total: 58,365.20 USD
Tax Amount: 0.00 USD
Total USD: 58,365.20 USD

Billing Details		Customer Information	
Invoice Number:	91746523	Sold To Customer No:	I8450153
Invoice Date:	September 30, 2016	Customer PO:	MAC01-0000008129
Due Date:	October 30, 2016	Sales Order:	2170739
Payment terms:	NET 30 Days	Reference Invoice:	
Currency:	USD	Reward Registration Id:	
Ship Via:	Fed Ex 2 Day		
Customer Address			
McMaster University 1280 Main St W HAMILTON, ON L8S 4L8 Canada			
Banking Information		Instructions	
Citrix Systems Inc. P O Box 931686 Atlanta, GA 31193-1686 Electronic payments (ACH) ABA new: 121000248 ABA (CDA): 061209756 Account #: 2090003163088 SWIFT: WFBUS6S		Please make payable to Citrix Systems, Inc. and indicate customer number and invoice number on payment. Payable in US funds	
E_only assessed as if goods not service_Citrix_91746523			

Item Description	Quantity	Unit Price	Amount	Tax %
4000746	1 EA	0.00	0.00	0.00 %
Citrix Access Gateway - x1 Concurrent User Connection				
Subscription Advantage Renewal (Universal) - 2 500 or More				
Users				
LA-0000864335-81455				

66717 HS70

Citrix Systems, Inc.
851 W Cypress Creek Rd, Fort Lauderdale, FL 33309, PH (954) 267-3000

tax assessed as if goods not



Citrix Systems, Inc.

851 W Cypress Creek Rd, Fort Lauderdale, FL 33309, PH (954) 267-3000

CROSS-BORDER TRANSACTIONS

Self-assessing on interprovincial transfers

- self-assessment of provincial component
- full or partial rebates of provincial component

- In situations where TPP is brought into a participating province from another participating province, with a lower HST rate, a person will generally be required to self-assess the difference between the provincial component of the HST in the destination province and the originating province based on the lesser of the consideration paid for the property and the fair market value of the property at the time of import.
- In circumstances where services and IPP are supplied in a province and subsequently consumed 10% or more in a participating province with a higher HST provincial component than the acquisition province, the person must self-assess an amount based on the difference between the provincial components of the HST.
- In both cases, relief is provided so that a person will not be required to self-assess tax on the difference if the amount of tax that is payable by the person is less than \$25 in a calendar month.
- Self-assessment of HST by registrants involved in exempt activities for IPP and services acquired outside Canada will be required where 10% or more of the supply will be consumed in a participating province. If self-assessment is required, it is provided that an amount of tax be calculated with regard to the extent to which the IPP or service will be consumed in each participating province.

CROSS-BORDER TRANSACTIONS

Self-assessing on interprovincial transfers

Notes continued from previous page

- An expansion to existing rebate mechanisms has been provided to allow registrants that acquire TPP that is subsequently removed from a participating province to a participating province with a lower provincial component tax rate to recover a portion or all of the provincial component of the HST, provided that the TPP is removed within 30 days of delivery to the original participating province. A similar rebate is provided for services and intangibles supplied in a participating province for use in another participating province. No 30-day time limit applies to this rebate.
- The rebate amount would be based on the difference between the provincial component of the HST paid and the provincial component of the HST that would have been paid in the destination province.
- The provisions discussed on the last two pages will only apply to organizations engaged in non-commercial activities (e.g., universities), as organizations engaged in commercial activity would be entitled to claim full ITCs for the HST paid on similar purchases.

About Ryan

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