

GOODS & SERVICES TAX BASICS AND RECOVERY

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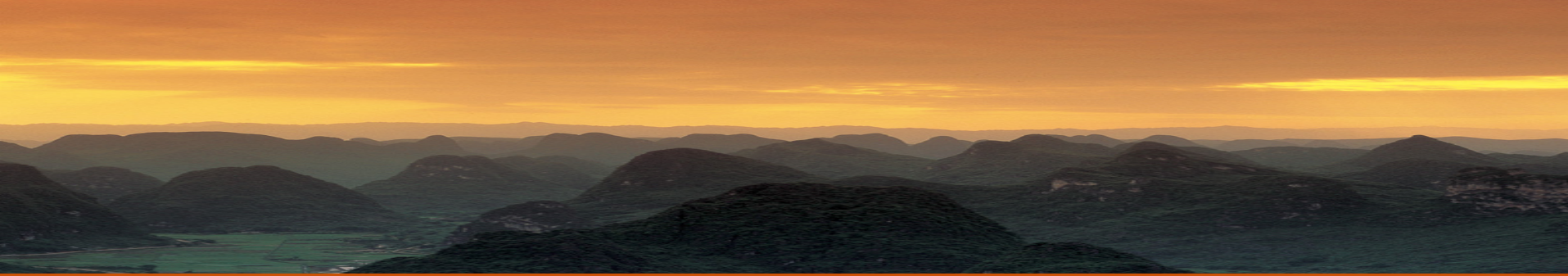


Today's Topics

1. GST Basics

2. GST and First Nations





GST Basics





GST Basics

What is GST?

Recovery of GST

Registration

Reporting Requirements





GST Basics

What is GST?





GST Basics – What is GST?

Goods and Services Tax

- Tax on the consumption of “goods” and “services” in Canada
- Collected by businesses or vendors (referred to as *registrants*) at each stage in the sales, production or marketing of goods and services
- Recovery of GST paid available through each stage until final consumer





GST Basics – What is GST?

Types of supplies

- Sale / rental of Tangible Personal Property (TPP)
- Services
- Sale / rental of real property
- Sale / license of Intangible Personal Property (IPP)





GST Basics – What is GST?

Types of supplies

- Taxable
 - GST rate of 0%, 7% or HST rate of 15%
- Exempt
 - Not taxable





GST Basics – What is GST?

Real Property

- Different rules
 - GST may apply even if vendor not registered
 - If purchaser registered, GST not charged by vendor; instead purchaser self-assesses tax
 - Special rules where non-residents involved





GST Basics

Recovery of GST





GST Basics – What is GST?

Two methods to recover GST paid

1. Input Tax Credits (“ITC”)
2. Rebates





GST Basics – Recovery of GST

Input Tax Credits

- Available to registered vendors involved in commercial activity
- For GST paid on costs to provide
 - taxable supplies including zero-rated
 - supplies to provincial governments (except where otherwise exempt)
 - not exempt supplies





GST Basics – Recovery of GST

Input Tax Credits

- Commercial Activity
 - Any business or undertaking except
 - Small supplier
 - Exempt Activity
 - Supply of Real Property





GST Basics – Recovery of GST

Rebates

- Certain industry sectors where supplies are otherwise exempt
- No ITC – instead all or portion of GST paid recovered through filing separate claim
- Schools, hospitals, charities, non-profit organizations (“NPO”)
- First Nations – 3 types of rebates available





GST Basics – Recovery of GST

Documentary Requirements

- Most invoices must provide
 - Purchaser name
 - Vendor name
 - Vendor GST registration #
 - GST paid
 - Date of transaction
- Lesser requirements for certain transactions





GST Basics - Summary

| <u>Supplies/Services</u> | <u>Tax Rate</u> | Entitlement to <u>ITCs</u> |
|---------------------------------|------------------------|---------------------------------------|
| Taxable (zero rated) | 0% | Yes |
| Taxable | 7%/15% | Yes |
| Provincial Government | 0% | Yes |
| Exempt | NA | No (rebates?) |





GST Basics

Registration





GST Basics - Registration

- Must register - annual taxable supplies (sales) of over \$30,000 (\$50,000 for charities and NPOs)
- Must register if taxable supplies in one quarter exceed \$30,000 (\$50,000)
 - Beware of “associated” persons
 - If associated with a registrant, you must register with your first dollar of taxable sales
- May voluntarily register before threshold reached





GST Basics - Registration

Formation of a Company

- Register for GST purposes as soon as possible after incorporation or ITCs on services may not be allowable
- ITCs may be available on capital property owned at the time of registration





GST Basics - Registration

Deregistration

- May result in a recapture of ITCs claimed on business assets or inventory on hand at the date of deregistration
- May be voluntary or automatically done by Canada Revenue Agency (“CRA”) if no commercial activity





GST Basics

Reporting Requirements





GST Basics – Reporting Requirements

GST Return

- Required to be filed for each reporting period even if nil return with no balance owing / receivable





GST Basics – Reporting Requirements

GST Return

- Total sales (excluding GST)
- Total GST collected/collectible
- Total GST paid on qualifying expenses (ITCs)
- Any GST rebate claimed that will be offset against net tax
- Adjustments
- Self-assessment on real property transactions





GST Basics – Reporting Requirements

Rebate Claims

- Rebate of GST filed on a separate form
- Rebate claimed may be used to offset GST/HST payable - attached to GST return



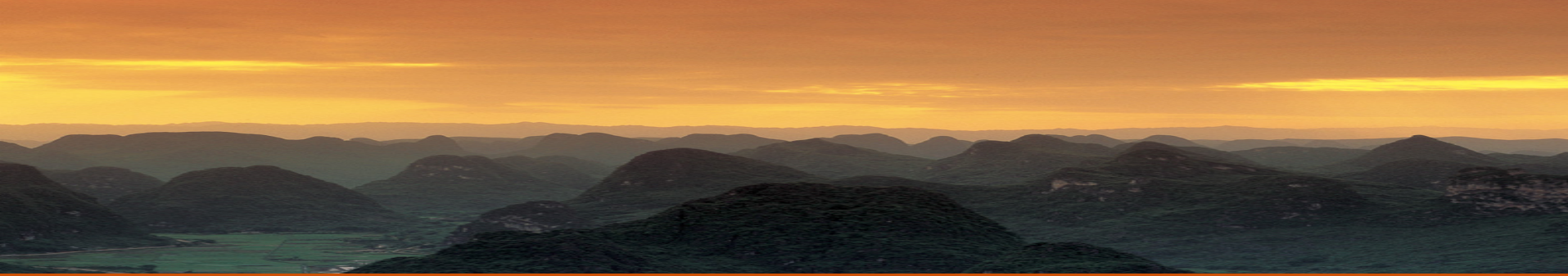


GST Basics – Reporting Requirements

GST Return Filing Frequency

| <u>Total Annual Taxable Sales (Associated)</u> | <u>Required Reporting Period</u> | <u>Optional Period(s)</u> |
|---|---|----------------------------------|
| More than \$6,000,000 | Monthly | No |
| \$500,001 to \$6,000,000 | Quarterly | Monthly |
| \$500,000 or less | Annual | Monthly or Quarterly |





GST and First Nations





GST and First Nations

Exemption from Tax

Recovery of GST by Rebate





GST and First Nations

Exemption from Tax





GST and First Nations – Exemption from Tax

Exemption from tax

- Provided through Indian Act under certain conditions
- Depends upon
 - Status of purchaser
 - Nature of goods / services
 - Place of supply





GST and First Nations – Exemption from Tax

Status of Purchaser

- Exemption extends to
 - Indian
 - Indian Band
 - Unincorporated band-empowered entity
 - Incorporated band-empowered entity purchasing for band-management activities
- Additional documentary evidence to support exemption must be retained by the vendor





GST and First Nations – Exemption from Tax

Band Empowered Entities

- Organization that is owned (90% or more) or controlled by a band, tribal council or group of bands
- Control determined by whether
 - the band, tribal council or group of bands appoints a majority of the members of the governing entity

AND

 - the entity is required to submit budgets for approval





GST and First Nations – Exemption from Tax

Band Management Activities

- Activities or programs undertaken by a band or band empowered entity that are not commercial activities (i.e. where an ITC would be available)
- Activity relates to the “management of the band”
 - Output test





GST and First Nations – Exemption from Tax

Place of Supply

- On Reserve
 - TPP
 - Services
- Off Reserve
 - TPP
 - Services





GST and First Nations – Exemption from Tax

On Reserve - TPP

- Purchases of TPP made on a reserve by qualified purchaser are not taxable
 - Purchaser must provide appropriate documentation
- Any other purchaser making purchases on a reserve is required to pay GST





GST and First Nations – Exemption from Tax

On Reserve – Services

- Purchase by qualifying Indian made on a reserve not taxable where:
 - service performed totally on a reserve and the TPP / real property on reserve at the time
 - personal services (such as haircuts) performed totally on reserve
- Purchases by band for band management activities or for real property located on reserve not taxable





GST and First Nations – Exemption from Tax

Off Reserve - TPP

- Purchases of TPP made by qualifying Indian or Indian band made off reserve taxable unless the property is delivered to a reserve by the vendor or vendor's agent (note remote stores)
 - Purchaser must provide appropriate documentation





GST and First Nations – Exemption from Tax

Off Reserve - Services

- Purchases of services by individual Indians not provided completely on a reserve are taxable
- Purchases of services by an Indian band not taxable if for band management activities or for real property located on a reserve

except

- transportation, short-term accommodation, meals and entertainment (see discussion of rebates)





GST and First Nations – Exemption from Tax

Examples – Individual Indian purchases

- Purchase of adult clothing not taxable if purchased on reserve
- Purchase of haircut not taxable if service performed on a reserve; taxable if haircut provided off reserve
- Services performed on a piece of property shipped off reserve for repair taxable
- Property picked up from an off reserve location taxable





GST and First Nations – Exemption from Tax

Examples – Corporate or commercial entity

- Materials purchased for use in commercial activity taxable whether purchased on or off the reserve
- A corresponding ITC may be available





GST and First Nations – Exemption from Tax

Examples – Indian bands and band empowered entities

- Materials purchased off reserve, but delivered onto reserve by the supplier not taxable
- Materials purchased off reserve taxable where purchaser transports the material to reserve in own vehicle
- Material purchased on reserve not taxable
- Legal services provided by off reserve firm in relation to piece of real property on reserve not taxable



GST and First Nations – Exemption from Tax

Examples – Band management activities off reserve

- Member of Indian band acting on behalf of band rents a car off reserve and remains off reserve in a hotel
 - pays GST/HST on expenses for subsistence at the time of the purchase





GST and First Nations

Recovery of GST by Rebate





GST and First Nations

Rebates

Filing Rebate Claims

Tips and Traps





GST and First Nations

Rebates





GST and First Nations – Recovery by Rebates

Three types of rebates available to First Nations for band-management activities on GST paid

1. All travel expenses and allowances (**Code 8**)
2. All services and tax paid in error (**Code 1**)
3. All other GST (**NPO Rebate**)





GST and First Nations – Recovery by Rebates

Code 8 Indian Band, Tribal Council, or Band-empowered Entity





GST and First Nations – Recovery by Rebates

Code 8 – “Travel Expense Rebate”

- Used to recover GST on all travel expenses, actual and deemed
- Filed on GST189 – General Application for Rebate of GST/HST
- Travel must relate to band-management activities





GST and First Nations – Recovery by Rebates

Code 8 – Eligible Amounts

- GST paid on travel expenses including meals, short-term accommodation, airfare, taxi
 - Actual GST paid per invoices
 - 6/106 (simplified method)
- 7/107 of all amounts paid for travel allowances
- No 50% restriction on meals





GST and First Nations – Recovery by Rebates

Code 8 – Documentation

- Must meet documentary requirements
- Actual GST or 6/106 method - invoices must show GST paid
- Allowances – document must show nature of allowance and how calculated
 - employee expense claim
 - cheque requisition





GST and First Nations – Recovery by Rebates

Code 1 Amounts Paid in Error





GST and First Nations – Recovery by Rebates

Code 1 – “Tax Paid in Error Rebate”

- Used to recover GST on all services or where tax charged “in error” by vendor
- Filed on GST189 – General Application for Rebate of GST/HST
- Must relate to band-management activities





GST and First Nations – Recovery by Rebates

Code 1 – Eligible Amounts

- Goods delivered to the reserve where the vendor charged the tax
 - by mistake or
 - because the proper documentation was not made available to the vendor
- All services, whether provided on the reserve or off the reserve, such as
 - car repairs
 - utilities for band property off the reserve





GST and First Nations – Recovery by Rebates

Code 1 – Documentation

- Must meet documentary requirements
- Invoices must clearly show that
 - the goods were delivered to the reserve or the nature of service provided;or
 - the nature of service provided





GST and First Nations – Recovery by Rebates

Not for Profit Organization Rebate





GST and First Nations – Recovery by Rebates

NPO Rebate

- 50% of any other GST paid that was not recovered by ITC, Code 8 or Code 1 rebates
- Available where at least 40% of total revenue is from government grants
- Filed on GST66 – General Application for Rebate of GST/HST and must be supported by GST523 to verify that the 40% revenue test is met
- Must relate to band-management activities





GST and First Nations – Recovery by Rebates

NPO Rebate – Eligible Amounts

- All other GST paid on expenses related to band-management activities, such as GST paid on goods purchased off the reserve





GST and First Nations – Recovery by Rebates

NPO Rebate – Documentation

- Must meet documentary requirements





GST and First Nations – Recovery by Rebates

Filing Rebate Claims





GST and First Nations – Recovery by Rebates

Filing Frequency

Time Limitations

Documentation

Practical Advice





GST and First Nations – Recovery by Rebates

Filing Frequency

- Code 8 and Code1 rebates
 - max. one rebate per calendar month
- NPO rebate
 - registrant – max. once every reporting period
 - non-registrant – max. semi-annual based on calendar year end (Jan-June and July-Dec)





GST and First Nations – Recovery by Rebates

Time Limitations – Code 8 and Code 1

CRA policy since December 2001

- Available for a period of up to two years from the date the GST was paid





GST and First Nations – Recovery by Rebates

Time Limitations – NPO Rebates

CRA policy since December 2001

- Available to GST registrants for a period of up to four years from the date the return for the period was due
 - For an annual filer, this can add an extra year of availability
- Available to non-registrants for a period of up to four years from the last day of the claim period (Jan-June, July-Dec)





GST and First Nations – Recovery by Rebates

Documentation

- CRA policy previously required all original supporting documents be filed with Code 8 and Code 1 claims
- New policy – file rebates and CRA will request certain supporting documents for review





GST and First Nations – Recovery by Rebates

Practical Advice

- May be beneficial to code travel allowances to a separate account code from actual travel expenses
 - lessens time required to prepare the rebate claim with use of 7/107 of total
 - may lessen time CRA requires to review rebate claims





GST and First Nations – Recovery by Rebates

Practical Advice

- Ensure actual GST paid is recorded to the GST account in order to maximize the rebate available
- For travel expenses – simplified method - use of 6/106 instead of actual GST
- Only record GST paid if the invoice clearly shows that GST was charged by the supplier





GST and First Nations – Recovery by Rebates

Practical Advice

- Using a third party provider to prepare, document and file rebate claims and liaise with CRA to support claim can
 - save staff time
 - ensure the maximum rebate claim is received by the Band
 - help the Band develop better or more efficient business processes





GST and First Nations – Recovery by Rebates

Tips and Traps





GST and First Nations – Tips and Traps

GST hidden in

- Allowances
- Taxi fares
- Seminars
- HST





GST and First Nations – Tips and Traps

No GST paid - no claim for

- Small suppliers charging for expenses
- Most post-secondary courses
- Many memberships
- Allowances / expenses for US travel





GST and First Nations – Tips and Traps

Practical difficulties

- #1 problem – improper invoices / documentation
- Inconsistency in recording GST paid and GST on allowances
- Vendors – charging GST when shouldn't and not charging GST when should
- Transactions between departments



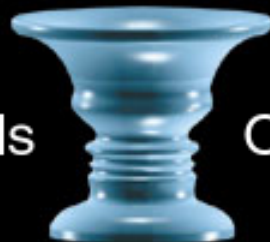


Questions





Your worlds



Our people