SMALL BUSINESS OWNERS AND THE GST/HST

The GST has been part of the Canadian tax system for over 20 years. The harmonized sales tax ("HST") is an extension of the GST, administered under the same legislation. The HST is actually the GST levied at a higher rate in harmonized provinces. It is the result of a provincial government agreeing with the federal government to repeal or cease the application of that province's provincial sales tax, in favour of a single tax, the HST, levied at a rate which is usually the combination of the GST rate and the repealed PST rate.

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How does it work?

The GST/HST is a multi-level sales tax, imposed on a broad range of goods and services at each stage of the sale of a product or service (that is, manufacturing, wholesale, retail). The taxes paid at any stage are deducted from taxes collected (known as input tax credits, or ITCs). For example, a barber would pay GST/HST on scissors purchased to use in the business, but would deduct that amount from GST/HST charged to customers and eventually remitted to the federal government.

The GST or HST is levied in every province and territory of Canada, on the same goods and services. Four Canadian provinces levy a provincial sales tax, at rates ranging from 5% to 10%. Generally, provincial sales taxes are levied on sales of goods in the province, but the rules vary from province to province. The GST/HST and provincial sales tax rates are provided in the following chart.

Province	*GST/HST & PST Rates*
British Columbia	GST @ 5% PST @ 7%
Alberta	GST @ 5%
Saskatchewan	GST @ 5% PST @ 5%
Manitoba	GST @ 5% PST @ 8%
Ontario	HST @ 13%
Quebec	GST @ 5% QST @ 9.975%
New Brunswick	HST @ 13%
Nova Scotia	HST @ 15%
Prince Edward Island	HST @ 14%
Newfoundland & Labrador	HST @ 13%

When the tax was originally introduced, the GST rate across Canada was 7%. That rate was reduced, effective July 1, 2006, to 6%, and reduced again, to 5%, effective January 1, 2008. On April 1, 2013, British Columbia returned to a combination of 5% GST and 7% PST. PEI made the switch to HST, with a rate of 14%.

For GST/HST purposes, all goods and services sold in Canada are characterized as taxable, zero-rated (taxed at a rate of 0%), or exempt goods and services (supplies). For taxable supplies, as the name implies, GST/HST must be charged on sales, and the vendor can claim an ITC on GST/HST paid. Some goods and services are zero-rated (the most common are basic groceries, prescription drugs, and medical devices). For zero-rated supplies, the vendor does not charge GST/HST on sales, but is permitted to recover GST/HST paid on supplies by claiming an ITC. Finally, a number of goods and services (including most health, financial services, many educational services, used residential housing, and child-care services) are exempt from GST/HST. On exempt services, no GST/HST is charged, and the vendor cannot claim an ITC on GST/HST which he or she has paid on purchases relating to the supply of those exempt goods or services.

Becoming a GST/HST registrant

For most small- and medium-sized businesses in Canada, registration for GST/HST purposes is not optional. Businesses that provide "taxable supplies" (which include most goods and services sold in Canada) and do not fall under the definition of a "small supplier" (generally, a business which had total revenues of $30,000 or less in the last four consecutive calendar quarters) must register for GST/HST purposes.

Although registration for GST/HST purposes means taking on a number of filing and remittance obligations, there is a benefit in that only GST/HST registrants can get back the GST/HST paid on purchases of supplies related to their business, by claiming ITCs.

Registering for GST/HST purposes isn't difficult. It can be done on the Canada Revenue Agency (CRA) Web site at www.businessregistration.gc.ca, or by paper-filing Form RC1A (BN), Business Number – GST/HST Information, also available on the CRA Web site at www.cra-arc.gc.ca/E/pbg/tf/rc1a/README.html. Those businesses which do not already have a business number will need to acquire one as part of registering for GST/HST purposes. Information on how to do so is available on the CRA Web site at www.cra-arc.gc.ca/tx/bsnss/tpcs/bn-ne/menu-eng.html.

How to collect GST/HST

It doesn't seem as though specific information should be required on how to collect a tax, but as is often the case in tax matters, there's more to it than meets the eye.

Businesses in non-harmonized provinces (Alberta, Saskatchewan, Manitoba, and Quebec) must invoice and collect GST and show provincial sales tax separately. In Alberta, where there is no provincial sales tax, only GST must be levied and collected. In other provinces, GST is charged to the purchaser at a rate of 5%. The rules on calculating provincial sales tax will vary by province, and information on those rules is best obtained from the particular provincial sales tax authorities.

In the "harmonized" provinces, calculating the HST is easier – essentially, a vendor is required to collect and remit HST at the applicable rate on the value of any taxable supplies sold.

In all provinces, a vendor of taxable supplies is required to show the amount of the tax to be levied (whether GST or HST), either on an invoice or contract, or on a display in their place of business. An exception to this applies whereby the vendor may provide the GST/HST on the invoice, by including the tax in the total invoice amount. In this case, it must be stated on the invoice that the GST or HST is included, and if differing rates apply, a statement is necessary to make it clear what the tax is, such that it can be accurately calculated out of the total by the recipient. GST/HST registrants are entitled to recover GST/HST paid on purchases and expenses related to their business activities. Usually ITCs are claimed on the GST/HST return which relates to the period during which the expenses were incurred.

Claiming input tax credits

There are some general rules respecting the claiming of ITCs. First, such claims can be made only with respect to purchases and expenses which are for consumption, use or supply in the course of carrying on a commercial activity, which means making taxable or zero-rated supplies. As well, to claim an ITC, the expenses or purchases must be "reasonable" in quality, nature and cost in relation to the nature of the purchaser's business.

There are a few purchases and expenses for which an ITC cannot be claimed, but many are unlikely to be relevant to a small business registrant.

The earliest that an ITC may be claimed is in the return for the reporting period in which the GST/HST was charged on an invoice received by the registrant. However, ITCs may be claimed on any future return, as long as that return is filed by the due date of the return for the last reporting period that ends within four years after the end of the reporting period in which the ITC could have first been claimed. Shorter periods, such as two years, apply to certain entities and financial institutions.

In Guide RC 4022, *General Information for GST/HST Registrants*, the CRA provides the following example:

> *You are a quarterly filer and you buy office furniture in the reporting period October 1, 2014, to December 31, 2014, for which you can claim an ITC. The due date of the return for this reporting period is January 31, 2015.*
>
> *The last reporting period in which you can claim an ITC for the tax you were charged on the office furniture is the reporting period October 1, 2014 to December 31, 2014. The due date for this return is January 31, 2015. This means that you can claim the ITC in any return due and filed by January 31, 2015.*

ITC Documentation Rules From Section 3 of The Input Tax Credit Information (GST/HST) Regulations

Amount Paid or Payable	*Prescribed Information*
Less than $30	a. name of supplier (or name under which supplier does business) b. if there is an invoice, the the date of the invoice c. where there is no invoice, the date on which tax is paid or payable d. total amount paid or payable for all supplies
$30 or more but less than $150	see a.-d. above, plus: a. GST registration number b. when supply not made on tax-included basis, amount of GST/HST charged on each supply/supplies, or when supply/all supplies are exempt, statement to that effect, or when tax status of supplies varies, tax status and rate of tax for each taxable supply
$150 or more	all documentation required for supplies under $150, plus: a. recipient's name, trading name, or name of duly authorized agent/representative b. terms of payment c. description sufficient to identify each supply

Simplified accounting for small business

While the claiming of ITCs is relatively simple in concept, it can become complex in application and, in any event, the requirements for record-keeping and documentation of claims can be onerous. In recognition of that reality, the CRA provides small businesses with two alternate methods of calculating and claiming ITCs and the amount of net GST/HST to be remitted to the CRA, each with its own advantages and disadvantages.

Before commencing use of such a method, a cost/benefit analysis is suggested. And this does not mean just the dollars and cents. Certainly, an analysis of the tax cost position, and whether accounting for actual taxes is better or worse than using the special methods, is fundamental. But, the result of this analysis should be balanced with a cost/benefit analysis of the administrative costs. This refers to the length of time required to manage the various optional processes, as well as the level of expertise required. The costs associated with the use of staff should be compared with the benefits of the processes. Hence, even if the use of a simplified method results in a loss of tax dollars, that may be justified by the administrative cost reductions found through saved staff time. The cost/benefit analysis should be reconsidered over time, whether annually or otherwise, since the results may change with changes in the organization or the tax regimes.

The Quick Method

The easiest way to calculate the amount of net GST/HST which must be remitted to the federal government is the "Quick Method", which is generally available to small businesses with worldwide taxable annual supplies totalling $400,000 or less. Businesses which use the Quick Method collect GST or HST from their customers or clients at the applicable rate. Basically, the Quick method permits the business the option of remitting an amount of tax that is a percentage (known as the "remittance rate") of its gross sales. The rate is determined by the CRA with reference to certain items, including the extent of goods or the extent of services supplied by the registrant, and whether the supply was made through a permanent establishment of the registrant in a participating or non-participating province. Since the rates differ among the harmonized provinces, the prescribed rates for streamlined accounting also differ. The remittance rates are

provided in tables. An additional table, with unique prescribed rates is provided for registrants which sell items subject to provincial point-of-sale rebates. There's no need, when using the Quick Method, to itemize or document GST/HST paid on supplies. The "rough justice" approach of the Quick Method would suit business owners who do not want to spend the time and effort required to track and document ITC claims on an ongoing basis. For some businesses (for example service businesses) which require relatively little in the way of supplies, and therefore incur relatively low business-related GST costs, use of the Quick Method can produce a better result than itemization. More information on the Quick Method is available in the CRA publication – RC4058, *Quick Method of Accounting*, available on the CRA Web site at www.cra-arc.gc.ca/E/pub/gp/rc4058/README.html. This guide and the Streamlined Accounting (GST/HST) Regulations have been updated in respect of Harmonization 2010.

The Simplified Method

Larger "small" businesses (those having up to $1 million in supplies in the previous fiscal year and in the previous quarters of the current fiscal year and taxable purchases of less than $4 million in the immediately preceding fiscal year) are eligible to use the "Simplified input tax credit method" when calculating and remitting GST/HST. Using this method, the business adds together all taxable purchases, including GST/HST, provincial sales tax, tips, and penalty and interest charges on late payments. For GST-only purchases, the total is multiplied by 5 and the result divided by 105 to arrive at the ITC amount claimable. The total of purchases on which HST was paid is multiplied by the appropriate HST ratio (12/112, 13/113, or 15/115) to arrive at the ITC amount. As with the Quick Method, the advantage of the Simplified Method is a reduction in the amount of record-keeping and documentation required of the small business owner.

The specific steps involved in using the simplified method are outlined in greater detail on the CRA's Web site at www.cra-arc.gc.ca/tx/bsnss/tpcs/gst-tps/bspsbch/rtrns/clcltng-eng.html. The Streamlined Accounting (GST/HST) Regulations have been updated in respect of Harmonization 2010.

This sounds very simple, but there are restrictions on who can make the election, and detailed rules on the application of the tax ratio. It is important to note that the thresholds refer to the totals for the electing entity and its associates. The ratio cannot be applied to real property purchases or purchases which were not subject to the tax (such as exempt supplies).

The availability of this election highlights a separate point, which is that without the election, a business is not entitled to use the ratios for ITC calculations. That may sound simple, but many businesses, regardless of size, continue to simply apply a ratio to calculate ITCs. They should not be surprised when this method leads to an assessment. If streamlined ITC calculations were available to everyone, an election wouldn't be required, or there would not be qualification requirements to make the election.

Filing the return

Every GST registrant is required to file a periodic return, reporting taxable sales made during the reporting period, and calculating the amount of GST/HST which must be remitted to the federal government for that period.

To some extent, GST registrants (with the exception of the largest businesses) have some choice in how often they will file GST/HST returns. The following chart, which appears on the CRA Web site at www.cra-arc.gc.ca/tx/bsnss/tpcs/gst-tps/rgstrng/menu-eng.html#details-part12b, shows the assigned and optional reporting period for businesses of different sizes, and for those in certain specialized sectors.

Annual Taxable Supplies	*Assigned Reporting Period*	*Optional Reporting Period*
$1.5 million or less	Annual	Monthly or Quarterly
More than $1.5 million up to $6 million	Quarterly	Monthly
More than $6 million	Monthly	Nil
Charities	Annual	Monthly or Quarterly
Financial Institutions	Annual	Monthly or Quarterly

Regardless of the type or size of business, or the frequency of reporting, the forms used are the same (although there are exceptions for financial institutions). The CRA automatically sends a personalized return—Form GST34, *Goods and Services Tax/Harmonized Sales Tax (GST/HST) Return for Registrants*, which includes information specific to the particular business—i.e. the name and address of the business owner and the business number. In the event that a personalized return form is not received, or is misplaced, a standard form (Form GST62, *Goods and Services Tax/Harmonized Sales Tax (GST/HST) Return (Non-personalized*)) may be used instead. The non-personalized return can be ordered from the CRA's Web site at www.cra-arc.gc.ca/orderforms or by calling the CRA's forms line at 1-800-959 2221.

As might be expected, the due dates for GST/HST returns vary, depending on the reporting period. If the reporting period (whether required or chosen) is monthly or quarterly, the return for the period as well as the remittance of amounts due for the period must be filed and remitted by the end of the month following the end of the reporting period. For example, a quarterly filer reporting for the April 1-June 30 period must file the return and remit any amounts owed by July 31.

Where the required or chosen reporting period is annual, most returns and remittances for the period are due no later than three months after the fiscal year end of the business (although there are exceptions for financial institutions). So, for example, an annual filer having a fiscal year end of March 31 would be required to file the annual return and remit amounts owed for that fiscal year no later than June 30.

An exception to the three-month deadline for annual filers is provided for certain small businesses. Sole proprietors who have a calendar year year-end (i.e., December 31) and who file annual GST/HST returns have until June 15 of the following year to file that return. Any GST/HST remittance owed for the year is however, due and payable to the federal government by April 30. Essentially, the rules for sole proprietors in this area mirror the rules imposed for payment of and filing deadlines for income tax final balances and returns.

No matter what the filing frequency and deadline, GST registrants have a number of options available when filing their returns and making their remittances. Both the return and the remittance (unless the remittance exceeds $50,000) can be sent by regular mail to the CRA. Returns and remittances can also be filed with a bank, unless the return is a nil return or the registrant is claiming a refund or is offsetting an amount owing on the return by a rebate or refund. In such circumstances, the return and remittance must be mailed to the address shown on the return.

As with income tax returns, many GST registrants now choose to take advantage of the electronic filing options available to them. Like income tax returns, GST/HST returns can be filing by telephone, using TELEFILE or via the internet using GST/HST

NETFILE. There are restrictions on the types of returns which qualify for electronic filing – where a return may be eligible for electronic filing, the CRA will provide the GST registrant with a four-digit access code printed on the personalized return. A word of caution—the CRA does not consider an amount remitted to have been paid until it is actually received by the CRA or by a financial institution, and interest charges are levied on late payments, with no grace period. (The CRA does make one concession in this area: Where the due date for a return or remittance falls on a weekend or holiday, receipt of the return or remittance on the next business day will suffice.) Where payments are made through a bank's automated teller

machine, registrants should be aware that the CRA does not consider such a payment made until it has been processed by the bank, which may take two or three days. Similar considerations would apply to payments made through Internet banking facilities. And, of course, registrants who send their remittances and returns by mail should ensure that mailing is done in sufficient time for the CRA to receive the remittance by the due date.

Instalment payments of GST/HST

Where GST registrants file and remit on an annual basis, the CRA does not wait a year or more for the tax. As is the case with income tax, annual GST filers are required to make a series of four instalment payments at regular intervals throughout the year.

Instalment due dates fall one month after the end of each fiscal quarter of the registrant's fiscal year. So, the instalment deadlines for a GST registrant with a December 31st year end would fall on the following dates:

Fiscal Quarter	*Due Date*
January 1 - March 31	April 30
April 1 - June 30	July 31
July 1 - September 30	October 31
October 1 - December 1	January 31

Instalment payments of GST are made using a personalized form, RC160 GST/HST Interim Payments Remittance Voucher. Once an instalment payment is made, the CRA will send the registrant two copies of a personalized RC160 for future use. In the event a registrant needs to order a personalized form (for example, for a first instalment payment), one can be ordered from the CRA's Web site at www.cra-arc.gc.ca/orderforms or by calling the CRA's forms line at 1-800-959 2221.

Instalment payments can be made by mail or through a financial institution. Once the payment is credited to the registrant's account, the CRA will send a Statement of Interim Payment, confirming the receipt of the payment, providing information on instalment credit balances by period, showing any transfers in and out of the instalment account and finally, showing how instalment credits were applied to assessments. When the return for the year is filed, a "true-up" is done. If instalments paid exceed GST/HST required remittances for the year, then the GST registrant will receive a refund of the overpayment. Where, however, instalments paid are less than the tax owing, the difference must be remitted to the CRA.

If instalments are not made on time, or are insufficient, interest will be charged from starting the day after the instalment was due, until the full payment is made, or until the date the net tax owing for the year is due, whichever is later. As with interest charges on late or deficient income tax payments, the rate charged on GST/HST deficiencies is equal to the CRA's prescribed rate.

In determining the amount of instalment payments to make, the GST registrant has a choice. If instalment payments made each represent at least one-quarter of the previous year's GST/HST liability (i.e., each instalment payment made during 2015 is at least one-quarter of the total GST/HST liability for the 2014 fiscal year), then no interest charges will be levied, even if there is eventually a balance owed on filing for the 2015 year. The GST registrant is also free to base the quarterly instalment payments on an estimate of the current year's liability, but there is a risk to that approach. If there is a balance owed on filing (that is, the instalment payments represented less than the year's total liability), then interest will be charged on the deficiency.

Finally, there is a de minimus rule with respect to GST/HST instalments which exempts the smallest businesses from the need to make instalment payments. Where the net GST/HST payable by a business for a fiscal year is less than $3,000, that business is not required to make instalment payments of GST/HST during the following year.

Conclusion

The GST/HST is fairly straightforward in theory, but can become extremely complex and detailed in application, particularly where specialized types of property or particular industries are involved. This article has covered the basics of the GST/HST system, but GST/HST is an area where the advice of a tax professional familiar with the GST registrant's specific situation is always helpful and sometimes essential.

As well, the CRA has made a wealth of information available to those seeking more general guidance - in its publications, on its Web site and through its Business Enquiries toll-free telephone line. The GST/HST page of the Web site, in particular, which can be found at www.cra-arc.gc.ca/tx/bsnss/tpcs/gst-tps/menu-eng.html, provides a useful starting point for anyone seeking general GST/HST information. Finally, information specific to a GST registrant's account can be always be obtained by calling the Agency's Business Enquiries Line at 1-800-959-5525.