

Excise and GST/HST News

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Amendments to the point-of-sale rebate for printed books

The governments of the participating provinces (Nova Scotia, New Brunswick, and Newfoundland and Labrador) have announced changes, effective September 1, 2006, to their respective regulations that add products to the list of printed books and qualifying property (i.e., updates of printed books, audio recordings, and bound or unbound printed versions of scripture of any religion) which are eligible for a point-of-sale rebate of the 8% provincial component of the HST.

On October 6, 2006, the Department of Finance announced proposed changes, effective September 1, 2006, to the *Deduction for Provincial Rebate (GST/HST) Regulations* under the *Excise Tax Act*. This regulation facilitates the delivery, at the point-of-sale, of the provincial book rebates by providing a mechanism whereby vendors can deduct from their net tax remittances the amount of the rebate they pay to or credit in favour of purchasers.

The rebate is being expanded to include a new category of qualifying property called “composite property”. Composite property consists of a printed book and read-only medium (and/or a right to access a website under certain conditions) that is wrapped, packaged or prepared for sale as a single product.

More Ways to Serve You!
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La version française du présent bulletin est intitulée
Nouvelles sur l'accise et la TPS/TVH.



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Canada

Composite property is eligible for the point-of-sale rebate under two situations.

Situation 1:

A printed book and a read-only medium sold together as a single product qualifies for the rebate if all or substantially all of the value of the material on the read-only medium is reasonably attributable to:

- (i) a reproduction of the printed book; and/or
- (ii) material that makes specific reference to the printed book and its content, and that supplements and is integrated with that content.

Under this situation, all or substantially all of the value of the material on the read-only medium must be reasonably attributable to material that meets the condition of being either (i) a reproduction of the printed book or (ii) material that supplements and is integrated with the printed book and its content. Any material on the read-only medium that does not make specific reference to the printed book and its content would not meet the second of these conditions. As well, the printed book must be the primary component of the package, and the material on the read-only medium must be supplementary to it.

Situation 2:

A printed book and a read-only medium and/or the right to access a website sold together as a single product qualifies for the rebate when the product is specially designed for use by students enrolled in a qualifying course and the read-only medium and/or website contain material that is related to the subject matter of the printed book.

Under this situation, the material on the read-only medium or the website must be related to the subject matter of the printed book. Material on the same subject matter would meet this test even if it did not specifically integrate with and supplement the content of the printed book.

Generally, for GST/HST purposes, a qualifying course would be an elementary, secondary or university level course. As well, certain professional accreditation and vocational courses are considered qualifying courses. Please refer to the GST/HST Memorandum 300-4-3, *Educational Services*, for more information on qualifying courses.

Please refer to Technical Information Bulletin B-094, *Amendments to the Point-of-Sale Rebate for Printed Books* for a more detailed discussion on this change to the rebate.

Elimination of the Visitors Rebate Program

A Notice of Ways and Means Motion to amend the *Excise Tax Act* was tabled in the House of Commons on September 25, 2006. The proposed amendments would eliminate the GST Visitor Rebate Program effective April 1, 2007.

Details regarding the provincial component of the HST as it relates to the Visitor Rebate Program will be provided at a later date.

The GST Visitor Rebate Program refunds the GST and the HST in respect of goods exported from Canada by non-residents, short-term accommodation and certain tour packages for non-residents, and certain property and services used in the course of conventions held in Canada.

Under the proposed amendments, if a written agreement for a supply to which relief for the GST, or the federal component of HST, applies was entered into prior to September 25, 2006, the relief would generally continue to be available. In addition, the current one-year period to claim a rebate would continue to apply. Please note that non-resident businesses will still be eligible for a rebate of the GST or the federal component of the HST on goods exported in the course of the business's commercial activities (excluding goods exported for personal use).

The Department of Finance News Release and The Notice of Ways and Means Motion and a schedule which lists the proposed amendments can be found on the Department of Finance Canada Web site at www.fin.gc.ca under News Releases.

Excise duty thresholds for beer and wine

Draft legislative proposals were announced June 28, 2006 to amend the *Excise Act, 2001* and the *Excise Act*. Once made into law, these proposals would modify excise duty volume thresholds for beer and wine that had been announced in the federal budget of May 2, 2006.

Beer

The budget proposed to provide partial excise duty relief for the first 75,000 hectolitres (hL) produced and packaged by Canadian licensed brewers who have produced and packaged no more than 300,000 hL of beer in the previous calendar year and do not exceed that limit in the current calendar year. After further consultations with the industry, it is proposed that the 300,000 hL threshold be eliminated. As a result, this relief would apply to the first 75,000 hL produced and packaged by **all** Canadian brewers. For more information please see Excise Duty Notice EDBN9, *Reduced Rates of Excise Duty on Beer Brewed in Canada*.

As well, where licensed brewers are related or associated with other brewers, the 75,000 hL limit must be allocated amongst the related or associated brewers. See Excise Duty Notice EDBN 10, *Related or Associated Persons Rules for Brewers* for information on related and associated persons. Imported beer is not eligible for the reduced rates of excise duty.

Wine

The budget also proposed to exempt from federal excise duty the first 500,000 litres of wine produced and packaged by a wine licensee per year made wholly from Canadian-grown agricultural products. After further consultations with the industry, it is proposed that the 500,000 litre threshold be eliminated, allowing all Canadian wineries to benefit from the exemption on **all** their production that is made from wholly Canadian-grown agricultural products. For more information please see Excise Duty Notice EDN15, *Additional Information Relating to the Excise Duty Exemption on 100% Canadian Wine*.

Please note that this exemption does not eliminate the requirement to maintain proper books and records and to file monthly returns.

FNGST for the Tsawout First Nation

Effective October 1, 2006 a First Nations Goods and Services Tax (FNGST) will apply to supplies made on or delivered to the Tsawout First Nation reserves in British Columbia.

As the FNGST is designed to work within the GST framework, no additional forms or registration will be required and vendors will simply apply the FNGST in the same manner as the GST/HST. Please note that, under specified conditions, an exception exists for leased vehicles under the *First Nations Goods and Services Tax Act*. Everyone, including status Indians, pays the FNGST.

Self-assessment

The Tsawout First Nation and its members are still eligible for tax relief on goods and services acquired on a reserve where FNGST or FNT does not apply. However, goods that are acquired tax relieved and brought onto the Tsawout First Nations reserves will be subject to the FNGST. Form GST531 *Return for Self-assessment of the First Nations Goods and Services Tax (FNGST)*, would have to be completed and submitted to the Canada Revenue Agency together with the FNGST payable on the self-assessment for the goods.

Charities and GST/HST

For GST/HST purposes, a charity includes a registered charity or registered Canadian amateur athletic association under the *Income Tax Act*. Charities that are small suppliers are not required to register for the GST/HST and do not collect GST/HST on taxable supplies (other than taxable sales of land or buildings). A charity is considered a small supplier if it has either \$250,000 or less in annual gross revenue or not more than \$50,000 in annual worldwide taxable supplies (other than sales of capital assets, such as a building or a computer).

Charities may be entitled to a Public Service Body Rebate of 50% on the GST (and in most cases also the HST) that they have paid that cannot be claimed as an input tax credit. A charity does not have to be registered for the GST/HST to claim this rebate.

GST/HST registrants

Most charities that are GST/HST registrants are required to use a special net tax calculation referred to as the "Net Tax Calculation for Charities". By using this calculation, charities remit 60% of the GST/HST they collect on most taxable supplies, while remitting 100% of the GST/HST they collect on certain supplies such as sales of real property and capital personal property. They cannot claim input tax credits on the GST/HST paid or payable on most items, however, they may be able to claim an input tax credit for GST/HST paid or payable on certain purchases, such as real property and capital personal property. These rules do not apply to a charity that is a school authority, public college, university, hospital authority, or a local authority determined to be a municipality.

Designated charities

Certain charities that provide employment assistance to individuals with disabilities can be given a special designation under the *Excise Tax Act*. To be eligible, one of the charity's main purposes must be to provide employment, training for employment, or employment placement services for individuals with disabilities, or to provide instructional services to assist such individuals in securing employment. The charity must also supply, on a regular basis, services that are performed, in whole or in part, by individuals with disabilities.

Once designated, most of the otherwise exempt supplies of services the charity makes to GST/HST registrants will be taxable. Supplies of some services, such as childcare and educational services, are not affected by the designation and remain exempt. Furthermore, supplies of the following services, when made by a designated charity to a public sector body or a board, commission, or other body established by a government or a municipality will remain exempt:

- care, employment, or training for employment of individuals with disabilities;
- employment placement services for such individuals; or
- the provision of instruction to assist such individuals in securing employment.

Once designated, the charity can use the "Special Quick Method of Accounting for Public Service Bodies" to calculate its net tax remittances. For information on this method, see the guide RC4247, *The Special Quick Method of Accounting for Public Service Bodies*.

Charities may request to be designated by writing to:

Director, Public Services Bodies and Governments Division,
Excise and GST/HST Rulings Directorate
14th floor, Tower A, Place de Ville,
Ottawa ON K1A 0L5.

For further details concerning the designation process, please contact GST/HST Rulings at 1-800-959-8297 (English) or 1-800-959-8296 (French).

For a comprehensive discussion about the GST/HST and charities, please refer to the CRA guide RC4082, *GST/HST Information for Charities*.

Supplies of independent medical examinations and assessments

The CRA has issued a policy statement to explain its position on the tax status of providing independent medical examinations (IME) and independent assessments. The following is a brief outline of this policy.

An IME means the service of providing an expert opinion contained in a written report. This report is prepared by a medical practitioner acting in the course of the practice of medicine (i.e., a physician). The expert opinion may be supplied by a physician or by the operator of a health care facility.

An independent assessment means the service of providing an expert opinion which is contained in a written report that is prepared by a medical practitioner acting in the course of the practice of dentistry, or a practitioner acting in the course of a practice of optometry, physiotherapy, chiropractic, podiatry, osteopathy, audiology, speech therapy, occupational therapy, or psychology.

These expert opinions are supplied to a third party regarding the future and ongoing medical or health care treatment of an individual who is of interest to the third party. A third party is any person or organization other than the supplier or the individual (e.g., insurance company, lawyer, tribunal or government). In most cases the expert opinion involves a meeting (i.e., an interview or an examination) between the supplier and the individual.

The tax status of IMEs and independent assessments is as follows:

- The service of supplying an IME falls within the meaning of “institutional health care service” when it is provided in a “health care facility” and where this service is rendered to a patient of the supplier’s health care facility, the supply made by the operator of the health care facility is exempt under section 2 of Part II of Schedule V to the *Excise Tax Act* (the Act).
- The supply of a service made by a physician of providing an IME and the supply of a service made by a dentist of providing an independent assessment are exempt under section 5 of Part II of Schedule V to the Act.
- The supply of a service made by a practitioner (acting in the course of a practice of optometry, physiotherapy, chiropractic, podiatry, osteopathy, audiology, speech therapy, occupational therapy, or psychology) of providing an independent assessment is exempt under section 7 of Part II of Schedule V to the Act.

For a more detailed discussion please refer to GST/HST Policy Statement P-248, *The Application of the GST/HST to the Supply of an Independent Medical Examination (IME) and to Other Independent Assessments*.

Acquisition of a right to attend a conference by an Indian band.

An Indian band does not have to pay the GST/HST on property acquired on or delivered to a reserve by the vendor or the vendor’s agent. (Section 87 of the *Indian Act* provides relief of tax on personal property of an Indian band situated on a reserve.)

Property includes tangible personal property and intangible personal property. Intangible personal property (IPP) consists of things such as contractual rights, options, trademarks and other intellectual property, all of which cannot be delivered to a reserve for tax purposes. Indian bands are not entitled to relief of tax on IPP where the IPP is located off a reserve. Jurisprudence has developed the connecting factors test which the CRA applies when determining the location of IPP acquired by Indian bands for tax purposes.

Under the *Excise Tax Act*, the right to attend a conference is a supply of IPP. It is the CRA’s position, based on jurisprudence, that where an Indian band acquires the right to attend a conference held off a reserve for band management activities, the right is considered to be situated on a reserve. The band will be required to provide a certificate to the conference provider indicating that the conference is for band management activities.

Therefore, where an Indian band acquires the right to attend a conference held off a reserve for band management activities and plans to send its employees, band officials or members of the band to the conference, the conference provider may give tax relief to the Indian band where all the remaining conditions in *Technical Information Bulletin B-039R3, GST/HST Administrative Policy – Application of GST/HST to Indians* are met.

Band-empowered entities, as defined in the bulletin, would also be eligible for tax relief where the conference is acquired for band management activities and the remaining conditions pertaining to band-empowered entities in the bulletin are met.

While Indian individuals are entitled to acquire a right to attend a conference held on a reserve relieved of tax, they are required to pay the tax on a right to attend a conference held off a reserve.

Please note that if a conference organized by a registrant takes place on the lands of a First Nation who have imposed a First Nations Goods and Services Tax (FNGST), everyone, including First Nations and their members, pays the FNGST when acquiring the right to attend the conference.

Business Registration Online

The CRA created a business registration Web site for small and medium-sized businesses. Business Registration Online is a one stop, online, self-serve application that allows you to register for a new Business Number (BN), as well as for four major CRA programs (Corporate Income Tax, GST/HST, Payroll Deductions, and Import / Export accounts). You can also register or apply for new Ontario, Nova Scotia, and British Columbia program accounts.

The site provides information about security features built into the system, as well as steps that users can follow to help ensure a safe transmission of data. As well, a toll-free help desk telephone number is available if further assistance is needed.

You can register for the following programs by visiting Business Registration Online, at www.cra-arc.gc.ca/tax/business/topics/bn/bro/restrictions-e.html, or by following these links from the CRA home page; Business, Business Account Registration, Business Registration Online:

CRA programs

GST/HST (If a business's main mailing address is in Quebec, the business must contact Revenu Québec to register for a GST/HST account)
Payroll deductions
Corporate income tax
Import/export

Nova Scotia programs

Business Name with the Registry of Joint Stock Companies
Workers' Compensation Board of Nova Scotia

Ontario programs

Ontario Business Name registration or renewal
Ontario Retail Sales Tax
Ontario Employer Health Tax
Ontario Workplace Safety and Insurance Board

British Columbia programs

Provincial Sales Tax
Hotel Room Tax
WorkSafe BC
Incorporation of BC companies

Standardized Accounting

Following the Federal Budget 2006 and the announcement of further initiatives relating to Standardized Accounting, this newsletter published an article which included information on Standardized Accounting in the Spring 2006 edition of the *Excise and GST/HST News (No. 60)*. Since that time, the CRA has published GST/HST Notice 212, a collection of Questions and Answers, to further clarify the legislative amendments to the *Excise Tax Act*.

Prior to the April 1, 2007 effective date we will be providing more information to help you apply these changes. The next edition (No.63) of the *Excise and GST/HST News*, which will be published in winter 2007, will highlight the new Standardized Accounting rules. To ensure that you receive this edition of the newsletter, subscribe to the electronic mailing list and we will notify you when the latest edition has been published on the CRA Web site.

During the fall 2006 and winter 2007, we will send you inserts to announce key legislative changes for businesses and provide information related to the implementation of a new GST/HST system. This new system will result in new services and more account information for GST/HST registrants.

My Business Account

Designed to serve the needs of businesses, My Business Account offers business owners, including directors or officers of corporations, access to a growing range of personalized business information and services. For the Fall 2006, limited services will be available for GST/HST and payroll accounts and throughout 2007, additional information and services for GST/HST accounts will be added.

Launched on September 25, 2006, My Business Account provides business owners with the convenience of using a single user ID and password to:

- file a corporation income tax return
- make certain online requests
- register a formal dispute (except GST/HST)
- request a CPP/EI ruling
- view a business address
- view status of a corporation income tax return
- view an account balance for corporation tax and excise duties and taxes
- view Excise duties and taxes transaction details and endorsements

For more information about this new electronic service, visit www.cra.gc.ca/mybusinessaccount.

Prescribed rates of interest

The prescribed annual rate of interest in effect from October 1, 2006 to December 31, 2006, with respect to the GST/HST and the air travellers security charge (ATSC) is set at 3.5707% . Interest and penalty compound daily. To calculate interest, divide the annual rate by 365 (366 in a leap year) and apply it daily to the previous day's compound balance.

The prescribed annual rate of interest in effect from October 1 to December 31, 2006, with respect to amounts of income tax, excise tax and excise duty (except excise duty on beer) payable to the Minister (i.e., arrears and instalment payments) is established at 9% The prescribed interest rate on amounts owed by the Minister (i.e., refunds) is established at 7%. These rates compound daily.

The prescribed annual rate of interest respecting excise duty on beer accounts is set at 7% for the period October 1, 2006 to December 31, 2006. Penalty compounds monthly and interest compounds daily.

| Period | GST/HST ATSC (per annum) | | Income Tax, Excise Tax, Excise Duty (wine, spirits, tobacco) | | Excise Duty (beer) | |
|-------------------------|--------------------------------|---------|--|------------------------------------|-----------------------|---------|
| | Interest | Penalty | Refund Interest | Arrears and Instalment Interest | Interest | Penalty |
| 2006 | | | | | | |
| October 1 – December 31 | 3.5707 % | 6.0 % | 7.0 % | 9.0 % | 7.0 % | 6.0 % |
| July 1 – September 30 | 3.5707 % | 6.0 % | 6.0 % | 8.0 % | 6.0 % | 6.0 % |
| April 1 – June 30 | 3.6099 % | 6.0 % | 6.0% | 8.0 % | 6.0 % | 6.0 % |
| January 1 – March 31 | 2.4333 % | 6.0 % | 5.0 % | 7.0 % | 5.0 % | 6.0 % |

Prescribed interest rates are adjusted every calendar quarter.
Rates of interest for previous periods are available on the CRA Web site.

What's new in publications

The following is a list of new or revised excise and GST/HST forms and publications.

GST/HST Memoranda Series

19-3-1-1 *Stated Price Net of Rebate*

GST/HST Technical Information Bulletins

B-094 *Amendments to the Point-of-Sale Rebate for Printed Books*

GST/HST Info Sheets

GI-007R *Operating a Bed and Breakfast in your Home*

GI-019 *Newspaper Carriers*

GI-020 *Bars*

GI-021 *Snack Foods*

GI-022 *Application of the GST/HST to Sales of Water*

GI-023 *Direct Sellers' Sales Aids*

GST/HST Policy Statements

- P-248 *The Application of the GST/HST to the Supply of an Independent Medical Examination (IME) and to Other Independent Assessments*
- P-249 *Agreements and Novation*

GST/HST Guides

- RC4031 *Tax Refund for Visitors to Canada*
- RC4036 *GST/HST Information for the Travel and Convention Industry*
- RC4103 *GST/HST Information for Suppliers of Publications*
- RC4125 *Basic GST/HST Information for Taxi and Limousine Operators*
- RC4091 *GST/HST Rebate for Partners*

GST/HST Notices

- Notice214 *Implementation of Tsawout First Nations Goods and Services Tax*

GST/HST Forms

- GST60 *GST/HST Return for Acquisition of Real Property*
- GST494 *Goods and Services Tax/Harmonized Sales Tax Final Return for Selected Listed Financial Institutions*
- GST495 *Rebate Application for Provincial Part of Harmonized Sales Tax (HST)*
- GST515 *Direct Deposit Request for the GST/HST New Housing Rebate*

Excise Duty Circular

- ED212-1 *Brewery Regulations*

Excise Duty Memoranda Series

- EDM10-1-6 *Completing an Excise Duty Return – Wine Licensee*

Excise Forms

- B200 *Tax Return – Excise Tax Act*
- B249 *Air Travellers Security Charge Return*
- B253 *Softwood Lumber Products Export Charge – Registration Form*
- B253-1 *Softwood Lumber Products Export Charge – Independent Remanufacturer Supplement*
- B253-2 *Softwood Lumber Products Export Charge – Registration Supplement – Multiple Regions or Mills*
- B261 *Excise Duty Return – Duty Free Shop*
- B262 *Excise Duty Return – Excise Warehouse Licensee*
- B263 *Excise Duty Return – Licensed User*
- B264 *Excise Duty Return – Special Excise Warehouse Licensee*
- B266 *Excise Duty Return – Spirits Licensee*
- B267 *Excise Duty Return – Tobacco Licensee*

All GST/HST, Excise Duty, and Excise Taxes and Special Levies publications can be found on the CRA Web site at: www.cra-arc.gc.ca/tax/technical/menu-e.html

GST/HST Enquiries

To make enquiries regarding your GST/HST account, call Business Enquiries at 1-800-959-5525

To make enquiries regarding the status of specific GST/HST domestic rebate claims, call
1-800-565-9353

To make enquiries regarding the status of visitor rebate claims, call 1-800-668-4748

To obtain copies of forms and publications, call 1-800-959-2221

If you are in Quebec please call the following toll-free number:
1-800-567-4692 (Revenu Québec)

The *Excise and GST/HST News* is published quarterly and highlights recent developments in the administration of the goods and services tax (GST) and harmonized sales tax (HST) as well as excise taxes and duties. This publication is provided for information purposes only and does not replace the law, either enacted or proposed. For further information on any of the articles contained in this newsletter, contact your nearest Canada Revenue Agency (CRA) tax services office or call Business Enquiries at 1-800-959-5525. Comments or suggestions about the newsletter should be sent to the Editor, *Excise and GST/HST News*, Legislative Policy and Regulatory Affairs Branch, CRA, Ottawa, Ontario K1A 0L5. ISSN 1183-689X