

GST/HST News

Summer 2000 Edition #37

Standard Disclaimer (for top of HTML document)

The *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 law, either enacted or proposed. For further information on any of the articles contained in this newsletter, contact your nearest Canada Customs and Revenue Agency (CCRA) tax services office or call Business Enquiries at 1-800-959-5525. Comments or suggestions about the newsletter should be sent to the Editor, *GST/HST News*, Policy and Legislation Branch, CCRA, Ottawa, Ontario K1A 0L5.

ISSN 1183-689X

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Federal Budget

The February 28, 2000 Federal Budget proposed a new Export Distribution Centre Program and a New Residential Rental Property Rebate.

Export Distribution Centre Program

Under the Export Distribution Centre (EDC) Program, proposed to begin on January 1, 2001, authorized export orientated businesses will be able to use a certificate to acquire or import most inventory and parts, or import a customer's goods for processing, without the payment of the GST/HST.

Only GST/HST registrants whose export revenue accounts for at least 90% of their total revenue generated from activities in Canada, and that add only limited value to goods will be eligible for the EDC Program. Eligible registrants who want to use the EDC Program must apply to the CCRA for authorization. Authorizations will remain in effect for three years, unless revoked earlier, and can be subsequently renewed.

To complement the EDC Program, the federal budget also proposed the following changes to existing measures:

- GST/HST relief extended to goods imported for warranty repair where replacement goods are exported in place of the original defective goods,
- the addition of storage services as eligible under the drop-shipment rules, and expansion of the Exporters of Processing Services Program to provide for storage and distribution activities.

More information on these topics can be found in the GST/HST guide RC4027, *Doing Business in Canada - GST/HST Information for Non-Residents* which can be found at this exact address: http://www.ccr-aadrc.gc.ca/tax/business/gstguides/rc4027/4027_1-e.html

Some Export Trading House Program rules aligned with those of the new EDC Program were also announced. Information concerning export trading houses can be found in the GST/HST Memorandum 4.5.2, *Exports - Tangible Personal Property* at this exact address <http://www.ccr-aadrc.gc.ca/E/pub/gm/4-5-2em/README.html>

As well, the Customs and Trade Administration Branch announced administrative streamlining of the Duty Deferral Program. Contact a Customs Border Services office for more information regarding this program.

New Residential Rental Property Rebate

The budget also proposes to introduce a New Residential Rental Property Rebate, generally equal to a maximum of 2.5 percentage points of tax, for newly-constructed, substantially renovated or converted residential rental accommodation. In the participating provinces this rebate will apply only to the federal portion of the HST. This rebate will be available in respect of rental accommodation including single unit and multiple unit rental housing, additions to multiple unit rental housing, and land leased for residential purposes, provided the rental accommodation or land is used or intended to be used as an individual's primary place of residence on a long-term basis. The rebate will be payable to the person who paid the tax. For example, in the case of rental accommodation, the rebate will be payable to the landlord and, in the case of leased land, to the lessor. The rebate will apply to rental accommodation where the construction, substantial renovation or conversion commences after February 27, 2000. In the case of leased land, the rebate will apply where lease agreements are entered into after February 27, 2000.

The CCRA will be publishing Technical Information Bulletins with detailed information concerning these new programs in the near future. Check the CCRA Internet site for these publications.

The Budget can be found on the Department of Finance Internet site under the heading “Budget Info” or by using this exact address: www.fin.gc.ca/budget00/toce/2000/bud2000e.htm

Automobile deduction limits

On December 13, 1999, Finance Canada issued a Press Release (99-108) announcing the new automobile expense deduction limits for the year 2000 and the prescribed rates for determining the taxable benefit on automobile operating expenses for businesses.

The ceiling for passenger vehicles for capital cost allowance purposes increases from \$26,000 to \$27,000 (plus applicable GST/HST and provincial sales taxes) for purchases after 1999, and the limit on deductible leasing costs will increase from \$650 per month to \$700 per month (plus applicable GST/HST and provincial sales taxes) for leases entered into after 1999.

The general prescribed rate used to determine the taxable benefit relating to the personal portion of automobile operating expenses paid by employers will increase from 14 cents to 15 cents per kilometre. For taxpayers employed principally in selling or leasing automobiles, the prescribed rate will increase from 11 cents to 12 cents per kilometre.

For GST/HST purposes, registrants who acquire, import, or bring into a participating province, a passenger vehicle for use as capital property in their commercial activities are not entitled to claim an input tax credit in respect of the GST/HST payable on the portion of the cost of the vehicle which exceeds the maximum capital costs for income tax purposes.

Where a registrant leases a passenger vehicle, input tax credits may be claimed in the normal manner. However, if the lease costs exceed the maximum amount deductible under the *Income Tax Act*, the input tax credit is subject to recapture.

A copy of this News Release can be found on the Department of Finance web site at www.fin.gc.ca under News Releases and Speeches, or by going directly to the following address: <http://www.fin.gc.ca/newse99/99-108e.html>.

Individuals claiming a GST/HST exemption

Vendors should be aware that a number of individuals are claiming exemptions and in some cases, presenting cards, such as *Corporation Sole* and *International Humanity House* cards, in an attempt to avoid paying the GST/HST on their purchases.

Although some provinces issue exemptions from provincial sales tax to farmers, municipalities and other businesses, these **do not apply** to the GST/HST.

Please note that vendors who **do not** collect GST/HST from an individual falsely claiming to be exempt from the GST/HST, must still remit the tax that should have been collected.

The only individuals who can purchase goods and services without paying the GST/HST are Indians, under the conditions outlined below.

Certificate of Indian Status

Indian individuals may qualify for tax relief under certain conditions. When these conditions are met, the CCRA accepts the *Certificate of Indian Status* card issued by the Department of Indian Affairs and Northern Development (DIAND) as proof of Indian status.

The *Certificate of Indian Status* card displays the Canadian maple leaf logo immediately followed by “Indian and Northern Affairs Canada”. The certificate card also shows:

- the person’s photo;
- the person’s name;
- a 9- or 10-digit registry number.

Therefore, if you are registered for the GST/HST and you supply goods or services taxable at 7% GST or 15% HST to an Indian individual, that Indian individual may be eligible for tax relief if the individual provides the *Certificate of Indian Status* card and:

- the goods are sold on a reserve, or the goods are delivered (by you or your agent) to a reserve; or
- the services (for example, haircuts, small appliance repairs) are performed totally on a reserve.

You must clearly indicate on the sales documents (i.e., invoice) the registry number, or the band name and family number (commonly referred to as the “band number or “treaty number”) and you must also retain proof of delivery if the goods are delivered to the reserve (such as way bills, postal receipts, freight bills, mileage logs, dispatch records).

Exception

The tax relief described above does not apply in the Yukon. Effective February 15, 1998, all supplies of goods and services to Indians and Indian bands in the Yukon became subject to the GST/HST. In addition, goods purchased by a Yukon First Nation or an Indian person resident in the Yukon are subject to GST/HST even if the goods are delivered to a reserve outside the Yukon.

For more information on this subject please consult the GST Technical Information Bulletin B-039R, *GST Administrative Policy: Application of GST to Indians*. This publication is available on the CCRA Internet site under Forms and Publications, Technical Publications - Tax, GST/HST, GST/HST Technical Information Bulletins, B 001 - B 050, or by using this exact address www.ccra-adrc.gc.ca/E/pub/gm/b-039r/README.html.

Reminder for farmers and agri-business

Most supplies of agricultural products are zero-rated for GST/HST purposes, including fruits, vegetables, grains and most livestock when they are produced for human consumption or used to produce food for human consumption.

Taxable supplies

Some agricultural products and services are taxable at 7% GST or 15% HST . These include supplies of :

Seeds and grains

- canary seed,
- bird seed grade sunflowers,
- grain or seed mixtures prepared for use as wild bird food or as pet food,
- other seeds and grains not normally sold for human consumption or as feed for livestock which are being raised for human consumption,
- lawn seed,
- flower seeds, and
- small packets of garden seeds.

Animals and poultry

- fur bearing animals such as fox, mink, and rabbits when sold to consumers as pets,
- horses, donkeys and mules,
- pigeons and peacocks.

Agricultural services

- custom combining and seeding,
- feedlot services not including feed,
- transportation fees, and
- storage fees.

When producers or distributors sell taxable products or services, they must charge the GST/HST and remit it with their regular GST/HST returns unless they are a small supplier who has not voluntarily registered. Where GST/HST registrants have paid the GST/HST on purchases of taxable supplies in the course of their commercial activities, they may be entitled to an input tax credit.

Please note that the above lists are not exhaustive. For a more complete listing including the tax status of agricultural supplies, consult GST/HST Memoranda Series - *4.4 Agriculture and Fishing* on the CCRA Internet site under the following headings: Forms and Publications, Technical Publications - Tax, GST/HST, GST/HST Memoranda Series, 4) Zero-rated supplies, or by using this exact address: www.ccra-adrc.gc.ca/E/pub/gm/4-4em/README.html.

Closely related corporations vs associated corporations for purposes of the election for nil consideration

This article briefly outlines the difference between “closely related corporations” and “associated corporations” and their eligibility to make an election for nil consideration under the *Excise Tax Act* (ETA).

Generally, section 156 of the ETA permits specified members of a closely related group of corporations to elect to treat qualifying supplies between them as if they were made for no

consideration, when all the requirements of the section are met. This is done in order to help simplify tax accounting. One of the requirements of the legislation is that corporations must be closely related rather than merely associated, in order to make the election.

The concept of closely related corporations under the ETA pertains to, among other things, the substantial common ownership of shares with full voting rights between corporations (i.e. common ownership of at least 90% of the value and number of issued and outstanding shares with full voting rights).

The concept of associated corporations deals with the common control among corporations. Generally, the ETA provides that two corporations are associated with each other if they are associated corporations under subsections 256(1) to (6) of the *Income Tax Act* (ITA). Circumstances of corporate control determine whether two corporations are associated. It is important to note that associated corporations are not necessarily closely related.

You should refer to section 128 of the ETA and GST Memorandum 17.14 for information on determining whether corporations are closely related; and section 127 of the ETA, subsections 256(1) to (6) of the ITA and Interpretation Bulletin IT64R3 for information on determining whether corporations are associated.

Excise Tax Corner

When excisable goods are purchased excise tax-paid, but are used under tax-exempt conditions, or when excisable goods are purchased tax-exempt, but are used or sold under taxable conditions, “diversion” occurs. Excisable goods normally associated with diversion include fuels, motor vehicles and tobacco products.

Tax Liability

Tax liability exists in cases where the purchaser acquires the goods tax exempt and sells or uses the goods for a purpose for which the goods could not have been purchased or imported without payment of the tax. If the goods are sold to a purchaser not entitled to excise tax relief, tax is due at the time of delivery to the subsequent purchaser. If the goods are taken by the purchaser for a use that is not tax exempt (e.g., purchaser’s own use) tax is due at the time of the first use.

For example, if a person acquired furnace oil exempt of excise tax and then used it to operate a vehicle, the purchaser would be liable for tax on the volume of fuel appropriated for use in the vehicle.

Refunds

Where goods, other than tobacco products, are purchased excise tax paid and are subsequently used or sold under exempt conditions, refund claims may be filed with the local tax services office. Normally, claims must be filed on the prescribed form (N15) within two years of the date of the diversion and must contain sufficient documentation to support the exempt usage or sale.

For example, a construction company could purchase diesel fuel tax paid and subsequently use the fuel to run a generator that generates electricity to operate pumps at a job site.

Customs Information Day

The CCRA is hosting a Customs Information Day for importers, exporters, and the traveling public on Saturday, June 17, 2000, in Fredericton, New Brunswick. For more information visit the CCRA Internet site at www.ccra-adrc.gc.ca/events/cidfredric-e.html

Non-resident registrants

If you are a non-resident registrant (e.g., U.S. resident) without a permanent establishment in Canada, the CCRA has designated a tax services office for you to carry on business according to the geographical area of your place of business abroad.

Should you wish to register with or otherwise deal with a specific tax services office for a particular reason (e.g., the place where your tax consultant is situated or where most of your supplies will be made), you may do so. However, you must select one of the designated tax services offices for non-resident registration, and you must meet the security requirements for those non-residents who do not have a permanent establishment in Canada.

A list of the particular states and countries and the corresponding tax services offices is provided in the GST/HST Guide RC4027, *Doing Business in Canada - Information for Non-Residents* which can be found on the CCRA Internet site under Tax, Business, GST/HST, GST/HST Guides, or by using this exact address:
www.ccra-adrc.gc.ca/tax/business/gstguides/rc4027/4027_1-e.html.

New address for your tax centre

The address of the CCRA Tax Centre to which you mail your GST/HST returns and remittances may have changed recently. This address is printed on each personalized return and remittance that we send you. You can help us in our efforts to provide you with more efficient service by ensuring your returns and remittances are sent to the appropriate Tax Centre.

What's new in publications

GST/HST Memoranda Series

Memorandum 3.3	<i>Place of Supply</i>
Memorandum 3.4	<i>Residence</i>
Memorandum 17.2	<i>Products and Services of a Deposit-taking Financial Institution</i>

GST/HST Guides

RC4031(E)	revised - <i>Tax Refund for Visitors to Canada</i>
RC4049(E)	<i>GST/HST Information for Municipalities</i>
RC4022(E)	<i>General Information for GST/HST Registrants</i>
RC4072(E)	<i>First Nations Tax (FNT)</i>

Current publications can be found on the CCRA Internet site at www.cra-adrc.gc.ca under Tax in either the Business or Technical Publications sub-headings or by going directly to the following addresses: www.cra-adrc.gc.ca/menu/EmenuHDA.html for guides, pamphlets, forms, and the *GST/HST News*, or at www.cra-adrc.gc.ca/menu/EmenuKZW.html for GST/HST Memoranda, Technical Information Bulletins, Policy Papers, Notices and Questions and Answers.

Prescribed rates of interest

GST/HST interest and penalty compound daily. Income tax interest also compounds daily. For excise duty, penalty compounds monthly, and interest compounds daily. For all other taxes noted below, penalties and interest are calculated monthly for each month or part-month in which a balance remains. The total amount payable is based on the total tax, penalties, and interest outstanding. Prescribed interest rates are adjusted every calendar quarter.

These rates of interest are also available on the CCRA Internet site by searching “prescribed rates of interest” or by using this exact address: www.cra-adrc.gc.ca/E/pub/gi/prier-eq/README.html

2000	GST/HST, Excise Tax (annualized rates)		Excise Duty (annual rates)		Income Tax (annual rates)		Arrears and Instalment Interest %
	Interest % *	Penalty %	Interest %	Penalty %	Refund Interest %		
January 1 - March 31	4.8264	6.0	7.0	6.0	7.0		9.0
April 1 - June 30	4.8264	6.0	8.0	6.0	8.0		10.0
July 1 - September 30	5.9674	6.0	6.0	6.0	8.0		10.0

* To calculate interest for GST/HST purposes only, divide the adjusted annual interest rate by 366 (as the year 2000 is a leap year) and apply it daily.

GST/HST Enquiries

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

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