



Direct Seller's Sales Aids

This Info Sheet replaces the version dated October 2006.

Businesses in the direct selling industry use sales aids to assist in the promotion, sale or distribution of their products. This info sheet explains what is and what is not a sales aid for direct sellers and their independent sales contractors (ISC) that use the Alternate Collection Method (ACM).

The information provided in this info sheet does not apply to sales aids of network sellers and sales representatives. A network seller is a direct selling business that sells its products directly to consumers through commission-based sales representatives. Refer to GST/HST Info Sheet GI-052, *Direct Selling Industry – The Network Sellers Method for Network Sellers and Sales Representatives* for information on what is a sales aid for network sellers and sales representatives.

This info sheet does not explain how the GST/HST applies to sales of sales aids. For more information, refer to the following Info Sheets:

- GI-052, *Direct Selling Industry – The Network Sellers Method for Network Sellers and Sales Representatives*;
- GI-125, *Direct Selling Industry – The Alternate Collection Method for Approved Direct Sellers and Approved Distributors*; or
- GI-126, *Direct Selling Industry – The Alternate Collection Method for Independent Sales Contractors*.

Meaning of terms used in this info sheet

“Exclusive products” are personal property acquired, manufactured, or produced by a direct seller for sale in the ordinary course of its business to ISCs who, in turn sell, or intend to sell, them to consumers.

“Personal property” means any property other than real property. It includes goods as well as rights or interests of any kind. However, it does not include money.

What is a sales aid

A sales aid is property that is a customized business form or a sample, demonstration kit, promotional or instructional item, catalogue, or other personal property that a direct seller or an ISC acquires, manufactures or produces for sale to assist in the promotion, sale or distribution of the direct seller's exclusive products.

A sales aid also includes the service of shipping or handling, or processing an order for other sales aids or exclusive products. For more details, see the heading “Service of shipping or handling or processing an order”.

A sales aid does not include an exclusive product or property that an ISC will use as capital property.

It is a question of fact whether a particular property is a sales aid. Direct sellers and ISCs must be able to demonstrate that the property is acquired, manufactured or produced for sale to assist in the promotion, sale or distribution of the exclusive products of the direct seller.

Sales aids may include:

- sample-sized goods in demonstration kits;
- property that would otherwise be an exclusive product, but which is identified as not intended for resale such as property labelled as a “tester”, “sample” or “not for resale”;
- advertising material such as flyers;
- business cards;
- pamphlets relating to an exclusive product;
- books, tapes, videos and CDs on how to be a better salesperson;

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- books, tapes, videos and CDs providing information on exclusive products;
- monogrammed items such as clothing and towels with the logo of the direct seller;
- subscription to the direct seller's business Web site; and
- admissions to seminars and meetings the purpose of which is to assist in the promotion, sale or distribution of the exclusive products of the direct seller.

In the examples below, the ISC is purchasing the item in question from its direct seller. In addition, assume that the item had been acquired, manufactured or produced by either the direct seller or by the ISC.

Example 1

A direct seller sells cosmetics. An ISC buys a demonstration kit containing small samples of cosmetics as well as disposable applicators. From time to time, the ISC must replenish the kit by buying more samples. Consumers are able to try the cosmetics and learn about their benefits before purchasing them. The demonstration kit, the replacement samples and the applicators are all sales aids. They assist the ISC in the promotion and sale of the cosmetics.

Example 2

A direct seller sells home care products. An ISC buys door tags listing his name, telephone number, address, the direct seller's name and the type of exclusive products. He leaves these tags on the door handles of homes in his area. These door tags are sales aids. They assist the ISC in promoting and selling the exclusive products by giving potential clients information on how to contact him for more details or to place an order.

Example 3

A direct seller sells specialized dog food. An ISC buys pamphlets that describe the benefits of the food and that provide instructions on how much of it to give to various-sized dogs. These pamphlets are sales aids. They assist in the sale of the exclusive product by explaining its benefits.

Example 4

A direct seller sells ornamental items. An ISC purchases several books and CDs that provide information on how to improve her selling technique and how to present herself with confidence. These books and CDs are sales aids. They assist in the sale of the exclusive products.

Example 5

A direct seller sells nutritional supplements. An ISC purchases a book that explains why certain vitamins are important for a person's health. This book is a sales aid. It assists in the sale of the nutritional supplements.

Example 6

An ISC purchases a polo shirt monogrammed with the logo of the direct seller. This shirt is a sales aid. It assists in the promotion of the exclusive products of the direct seller.

Example 7

An ISC pays a monthly fee to subscribe to the Web site of its direct seller which is used to place orders and receive instructions from the direct seller. The subscription to the business Web site is a sales aid. It assists in the sale and distribution of the direct seller's exclusive products.

Example 8

An ISC pays an admission fee to attend a conference on motivation and leadership. The conference is produced by the direct seller. The admission to the conference is a sales aid. It assists in the promotion, sale or distribution of the exclusive products of the direct seller.

What is not a sales aid

The following items are not sales aids:

- an exclusive product of a direct seller unless it is identified as not intended for resale such as property labelled as a "tester", "sample" or "not for resale";
- property that an ISC purchases for use as capital property. Capital property is property for which a person cannot deduct its full purchase price for income tax purposes for the year in which the person purchased it;
- books, CDs, tapes and videos that deal with general business topics;
- clothing or merchandise that does not have the logo of the direct seller on the item;
- services;
- admissions to conferences, seminars or other activities of a general nature.

Example 9

A direct seller sells candles. An ISC burns some of the candles during her home parties so that customers can experience the aroma of the candles. The candles she burns during the home parties are exclusive products of her direct seller and are not marked as "testers", "samples" or "not for resale". The candles are not sales aids because they are exclusive products of the direct seller and they are not identified as "not intended for resale".

Example 10

A direct seller sells skin care products. An ISC buys a machine that identifies skin problems. Based on the machine's results, she is able to identify which products would be most suitable for a customer's skin type. She may deduct only a part of the machine's cost for income tax purposes each year. The machine is not a sales aid because it is capital property.

Example 11

An ISC sells T-shirts with different designs in a choice of six colours that change every year. The T-shirts come in three sizes. At the beginning of a season, he buys six T-shirts to use as samples, one in each colour and each with a different design. He makes sure that he has at least one T-shirt in each size. At the end of the season, he sells these T-shirts at a reduced price. The T-shirts that he uses as samples are exclusive products of his direct seller and are not marked as "testers", "samples" or "not for resale". Consequently, they are not sales aids.

Service of shipping or handling or processing an order

The service of shipping or handling, or processing an order for other sales aids or exclusive products is a sales aid.

Service of shipping or handling

The service of shipping or handling a product or a sales aid is a sales aid. To determine whether a service of shipping or handling is being provided, direct sellers and ISCs must consider the terms of the agreement for delivery of the exclusive products or sales aids.

When the supplier retains ownership of the exclusive product up until it is given to a carrier (i.e., the title to the product passes when the product is given to the carrier), the service of shipping or handling is a separate supply. Consequently, it is a sales aid.

Example 12

A direct seller sells kitchen tools to an ISC who, in turn, sells them to consumers. The direct seller charges the ISC a fee for shipping and handling. According to the terms of delivery of a kitchen tool to the ISC, the direct seller retains its ownership up until it is given to the carrier. In this case, the service of shipping and handling is a separate supply and is a sales aid.

Shipping or handling is not a sales aid when the supplier retains ownership of the exclusive product up until it is delivered to the purchaser's premises (i.e., the title to the product passes when the ISC or consumer receives it). In this case, shipping or handling forms part of the suggested retail price of the exclusive product which is the lowest price published by the direct seller that a consumer pays for an exclusive product.

If a direct seller publishes a separate amount for shipping and handling, shipping and handling would still form part of the suggested retail price. Both amounts, taken together, would still be the lowest price published by the direct seller that a consumer expects to pay for an exclusive product.

Example 13

A direct seller sells children clothing to an ISC who, in turn, sells them to consumers. The product catalogue indicates the suggested retail price of the products, plus a statement that a \$5 fee for shipping and handling will be applied to each customer order of exclusive products.

The direct seller charges the ISC a \$5 fee for shipping and handling. According to the terms of delivery of the products to the ISC, the direct seller retains ownership of the products until they are delivered to the ISC's premises.

Because the terms of delivery of the clothing, shipping and handling is not a sales aid. It forms part of the suggested retail price of the products.

Service of processing an order

The service of processing an order for sales aids or a product of a direct seller is a sales aid.

Example 14

A direct seller charges a \$4 processing fee to its ISCs for each order of sales aids. The service of processing the order for the sales aids is a sales aid.

Additional information

If you are not sure whether an item is a sales aid, call GST/HST Rulings at 1-800-959-8287. You may also ask for a written ruling or interpretation. See GST/HST Memorandum 1.4, *Excise and GST/HST Rulings and Interpretations Service* for more information.

This info sheet does not replace the law found in *the Excise Tax Act* (the Act) and its regulations. It is provided for your reference. As it may not completely address your particular operation, you may wish to refer to the Act or appropriate regulation, or contact any CRA GST/HST Rulings Centre for additional information. A ruling should be requested for certainty in respect of any particular GST/HST matter. Pamphlet RC4405, *GST/HST Rulings – Experts in GST/HST Legislation*, explains how to obtain a ruling and lists the GST/HST Rulings Centres. If you wish to make a technical enquiry on the GST/HST by telephone, please call 1-800-959-8287.

If you are located in Quebec and wish to make a technical enquiry or request a ruling related to the GST/HST, please contact Revenu Québec by calling the toll-free number 1-800-567-4692.

All GST/HST publications are available on the CRA Web site at www.cra-arc.gc.ca/gsthsttech.