



# GST/HST Memoranda Series

## 17.8 Credit Unions

April 1999

Overview	This memorandum explains, for purposes of the Goods and Services Tax (GST)/Harmonized Sales Tax (HST), the provisions of the <i>Excise Tax Act</i> that pertain to credit unions.
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**Disclaimer**

The information in this memorandum does not replace the law found in the *Excise Tax 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 a Canada Revenue Agency (CRA) GST/HST Rulings Centre for more information. These centres are listed in GST/HST Memorandum 1.2, *Canada Revenue Agency GST/HST Rulings Centres*. If you wish to make a technical enquiry on the GST/HST by telephone, please call the toll-free number 1-800-959-8287.

If you are located in the Province of Quebec, please contact Revenu Québec by calling the toll-free number 1-800-567-4692 for additional information.

**Note**

This memorandum supersedes GST Memorandum 700-5-3, *Credit Unions*, dated July 31, 1992.

**Note - HST**

Reference in this memorandum is made to supplies taxable at 7% or 15% (the rate of the HST). The 15% HST applies to supplies made in Nova Scotia, New Brunswick and Newfoundland (the “participating provinces”). If a person is uncertain as to whether the supply is made in a participating province, the person may refer to Technical Information Bulletin B-078, *Place of Supply Rules under the HST*, available from any Revenue Canada tax services office.

## Definitions

**Meaning of credit union ss 123(1)**

1. For GST/HST purposes, a credit union has the meaning assigned by subsection 137(6) of the *Income Tax Act*, and includes a corporation described in paragraph (a) of the definition of “deposit insurance corporations” in subsection 137.1(5) of that Act.

**ss 137(6) of the *Income Tax Act***

2. A credit union is defined in subsection 137(6) of the *Income Tax Act* to mean a corporation, association or federation incorporated or organized as a credit union or co-operative credit society if:

(a) all or substantially all of its revenues are derived from

- loans made to members, or cashing cheques for members,
- debt obligations or securities of, or guaranteed by, a Canadian government (i.e., federal, provincial or municipal) or an agency thereof,

- debt obligations or securities of a municipal or public body, performing a function of a Canadian government or an agency thereof,
  - debt obligations of, or deposits with, or guaranteed by,
  - a corporation, commission or association, at least 90% of the shares or capital of which was owned by a Canadian government, or
  - a bank,
  - debt obligations of, or deposits with, a corporation licenced or otherwise authorized under Canadian law (either federal or provincial) to carry on in Canada the business of offering to the public its services as trustee,
  - charges, fees and dues levied against members or members of members,
  - loans made to, or deposits with, a credit union or cooperative credit society of which it is a member, or
  - a prescribed revenue source,
- (b) all or substantially all the members having full voting rights were corporations, associations or federations
- incorporated as credit unions or cooperative credit societies, where all or substantially all of
    - their revenues were derived from the sources described above in (a), or
    - the members were credit unions, cooperatives or a combination thereof,
  - incorporated, organized, registered under, or governed by Canadian law (either federal or provincial) with respect to cooperatives, or
  - incorporated or organized for charitable purposes, or were corporations, associations or federations no part of the income of which was payable to, or otherwise available for the personal benefit of, any shareholder or member thereof, or
- (c) the corporation, association or federation would be a credit union as set out in (b) if all the members (other than individuals) having full voting rights in each member that is a credit union were members with full voting rights in the corporation, association or federation.

Meaning of deposit insurance corporation ss 137.1(5) of the *Income Tax Act*

3. According to paragraph (a) of the definition of a deposit insurance corporation in subsection 137.1(5) of the *Income Tax Act*, a deposit insurance corporation includes a corporation that is incorporated under federal or provincial law respecting the establishment of a stabilization fund or board if:

- (a) it was incorporated primarily
    - to provide or administer a stabilization liquidity or mutual aid fund for credit unions, and
    - to assist in the payment of any losses of the members in liquidation; and
  - (b) throughout the taxation year (for income tax purposes);
    - it was a Canadian corporation, and
    - the cost amount to the corporation of its investment property was at least 50% of the cost amount of all its property other than
      - a debt obligation by the member at a time when it was in financial difficulty, or
      - a share of the capital stock issued by the member at a time when it was in financial difficulty.
4. The term “credit union” includes a caisse populaire.

5. Additional information on credit unions can be found in Revenue Canada Taxation Interpretation Bulletin IT-483, *Credit Unions*.

subpara 149(1)(a)(iv)

6. A credit union is a listed financial institution pursuant to subparagraph 149(1)(a)(iv). A person who is defined as a listed financial institution is subject to the special provisions of the Act that apply to financial institutions and listed financial institutions.

7. In some cases a credit union may also meet the definition of a “selected listed financial institution”, in which case there are special provisions in the Act that apply only to those financial institutions.

8. Information on listed financial institutions, including selected listed financial institutions, can be found in GST/HST Memorandum 17.6, *Definition of “Listed Financial Institution”*. Additional information on selected listed financial institutions can be found in the guide, *GST/HST Information for Selected Listed Financial Institutions* and GST/HST Technical Information Bulletin B-083R, *Financial Services Under the HST*. Information on these subjects may also be obtained by contacting the nearest Revenue Canada tax services office.

### Provincial credit unions (centrals)

9. Provincial credit unions (centrals) are owned by the credit unions of the province. Many of the services provided by a central to a credit union are exempt financial services. These include inter-credit union transfers, automated teller machine settlements, and credit card transactions and reports. The supply of support services such as marketing, training, management consulting, and data processing by a central to a credit union would normally be a taxable activity. However, such supplies among credit unions are deemed to be supplies of exempt financial services. The section of this publication entitled "Intra-group transactions" (see paragraphs 24 to 34) explains this provision in greater detail.

### Canadian Co-operative Credit Society Limited

#### *Financial Services (GST) Regulations*

10. The Canadian Co-operative Credit Society Limited (CCCS) provides credit unions with access to the payment and clearing facilities of the Canadian Payments Association and the national network of automated teller machines (ATMs) through the Interac Association.

11. Services provided by the Canadian Payments Association or any of its members with respect to the clearing and settlement of payment items under the national payments system are exempt as these supplies are prescribed services under the *Financial Services (GST) Regulations* (to be renamed the *Financial Services (GST/HST) Regulations*). Fees for services between financial institutions in respect of ATM transactions are financial services, and are therefore exempt.

12. The CCCS also provides non-financial services. These non-financial services such as communications, electronic network planning, professional development and marketing are normally taxable at 7% or 15%. However, as described in the section of this publication entitled "Intra-group transactions" (see paragraphs 24 to 34), these taxable supplies are deemed to be supplies of exempt financial services when provided to a credit union by another credit union.

### Confédération des caisses populaires et d'économie Desjardins du Québec and La Caisse centrale Desjardins du Québec

13. The Confédération des caisses populaires et d'économie Desjardins du Québec (Confédération) provides a mix of both exempt financial services and taxable support services to its member caisses populaires. Another organization, La Caisse centrale Desjardins du Québec, provides caisses populaires with access to the clearing facilities of the Canadian Payments Association. As with supplies between credit unions, certain supplies between the Confédération and the caisses populaires are deemed to be supplies of exempt financial services under subsection 150(6). The section of this publication entitled "Intra-group transactions" (see paragraphs 24 to 34) provides more details on this subject.

**General**

14. Credit unions are financial institutions that provide services to their members (customers) and operate in much the same manner as banks, i.e., they provide various financial services. Among these are such services as operating and maintaining savings and chequing accounts, and issuing personal, business, and mortgage loans. However, credit unions differ from banks in that the customers (or members) own and control the credit union.
- Sch V, Part VII, s 1      15. A credit union provides many of the financial services included in the definition of financial service found in subsection 123(1). The supply of a financial service is an exempt supply, unless it is specifically zero-rated.
- Example      Where a credit union charges a service fee to a domestic client for certifying a cheque or handling a NSF (non-sufficient funds) cheque, the service fee is exempt.
- Non-residents  
Sch VI, Part IX      16. With a few exceptions, supplies of financial services made to a non-resident person are zero-rated. Generally, the exceptions relate to circumstances where the transactions deal with financial services in respect of property or services in Canada.
- Example      Where a credit union charges a processing fee to a non-resident for a mortgage loan for use outside Canada, it is a zero-rated supply of a financial service. However, if the mortgage is held on real property situated in Canada, the financial service is not zero-rated, but exempt.
17. A credit union may also provide supplies, other than financial services, which are taxable at 7% or 15%. For example, the rental of a safety deposit box, the service of providing advice to clients with respect to wills and estate planning, and the sale of repossessed or seized property are not exempt financial services and are taxable at 7% or 15%.
- Seizures and  
repossessions  
s 183      18. A credit union may, during the course of its business activities, seize or repossess property. Generally, the primary reason for seizing property is to sell the property to recover the outstanding loan or debt for which the property served as security. In such cases the property the credit union seizes or repossesses will be considered inventory for purposes of the GST/HST and not capital property. As a result, the sale of seized or repossessed property is not excluded from calculations in determining if the credit union is required to register for the GST/HST.
19. This position that seized or repossessed property is considered inventory is consistent with that taken by the Department with respect to the status of such property for income tax purposes. GST/HST Memorandum 17.15, *Seizures and Repossessions*, will provide more information on this subject.
- Supply of a membership  
s 140      20. The supply of a share, bond, debenture or other security of an organization as a condition of obtaining a membership in the organization, or in a related organization, is deemed to be a supply of a membership and not a supply of a financial service. As a result the supply is a taxable supply. However, this rule does not apply to the supply of a share in a credit union. In this case, the supply of the share remains the supply of an exempt financial service.

21. GST/HST Technical Information Bulletin B-060, *Listing of Taxable, Exempt and Zero-Rated Products and Services of a Deposit-Taking Financial Institution*, provides more information on the tax treatment of various supplies normally made by a financial institution.

Mixed supplies 139

22. Where a supply of one or more financial services together with other properties (excluding capital properties) or services that are not financial services is made for a single consideration, the supply of all properties and/or services is treated as a supply of financial services if:

- the financial services are related to the other services or properties;
- it is the usual business practice of the supplier to supply those or similar properties and services together; and
- the consideration for the financial services (if supplied separately) would be more than 50% of the consideration for all of the properties or services if they had been supplied separately.

Example

Assume that an all-inclusive credit union service charge entitles an account holder to receive personalized cheques (a non-financial service) in addition to a range of financial services. In this case, if more than 50% of the consideration relates to financial services, the supply of all property and services is treated as a supply of financial services. The credit union is not required to identify a separate charge for the provision of the cheques and to collect the tax on that charge. The entire service charge is treated as an exempt supply.

23. Information on what is a financial service and mixed supplies will be available in GST/HST Memoranda 17.3, *Financial Services and Mixed Supplies*, or by contacting the nearest Revenue Canada tax services office.

### Intra-group transactions

Election for exempt supplies ss 150(1)

24. Where two members of a closely related group of which a listed financial institution is a member make a joint election (form GST 27, *Election for Exempt Supplies*), every supply of property between the two members made by way of lease, licence or similar arrangement or of a service, which would have been a taxable supply, is deemed to be a supply of a financial service if it is made at a time when the election is in effect.

Sch V, Part VII, s 2

25. As a result of the election, these deemed financial services between the members are exempt supplies.

Credit unions deemed to have elected ss 150(6)

26. The following deeming provisions apply in respect of the election to exempt otherwise taxable supplies:

- (a) at all times every credit union is deemed to be a member of a closely related group of which every other credit union is a member;

- (b) every credit union is deemed to have made the election for exempt supplies with every other credit union;
- (c) the election for exempt supplies between credit unions is deemed to be in effect at all times; and
- (d) every supply of tangible personal property made by a credit union, other than capital property of the credit union, to another credit union is deemed to be a supply of a financial service.

27. Consequently, credit unions do not have the option of making supplies of property by way of lease, licence or similar arrangement, or of a service (to which section 150 applies) to each other on a taxable basis.

Exception  
ss 150(2)

28. Excluded from this election are imported taxable supplies and supplies involving a participant in a joint venture election.

29. GST/HST Memorandum 17.14, *Election for Exempt Supplies*, provides more information on the subject of this election.

Meaning of closely  
related group  
ss 123(1)

30. A closely related group means a group of corporations each member of which is closely related, within the meaning assigned by section 128, to each other member of the group.

Credit unions and  
members of mutual  
insurance groups  
ss 128(3)

31. For a corporation to be closely related to another corporation, the corporation must be a resident in Canada and must be a registrant. However, a credit union that is not actually registered is nevertheless deemed to be a registrant for the purposes of determining if the corporation is a member of a closely related group.

Meaning of qualifying  
subsidiary  
ss 123(1)

32. The definition of a qualifying subsidiary provides that a credit union is a qualifying subsidiary of every other credit union. Thus, where not less than 90% of the shares of a corporation are owned by a credit union or a group of credit unions, the corporation is regarded as being closely related to all credit unions. This allows all credit unions to elect to exempt supplies with a corporation that is not itself a credit union

para 128(1)(b) and  
*Closely Related  
Corporations (GST)  
Regulations*

33. Currently, Co-operators Data Services Limited (CDSL) is prescribed as being closely related to every credit union where CDSL is a registrant resident in Canada.

**Note:** Effective November 18, 1996, CDSL is known as CDSL Holdings Ltd. The newly named company is still treated by the Department as a prescribed corporation. Subsequent to this corporate name change, a 100% owned and operated subsidiary, CDSL Canada Limited, was created by CDSL Holdings Ltd. This subsidiary provides credit unions with the services previously provided by CDSL Holdings Ltd. As CDSL Canada Limited meets the criteria to be closely related to every credit union (i.e., CDSL Canada Limited is a qualifying subsidiary of a prescribed corporation to which every credit union is closely related), the election to exempt supplies may be made between the corporations.

34. Detailed information on closely related corporations can be found in GST/HST Memorandum 17.14, *Election for Exempt Supplies*.

### Registration

Required registration  
ss 240(1)

35. In general, the majority of supplies provided by a credit union are exempt. However, if a credit union is engaged in commercial activities in Canada and makes taxable supplies in excess of \$30,000 or, where the credit union is a public service body, \$50,000, in any four consecutive calendar quarters or in any one particular quarter, the credit union is required to register for purposes of the GST/HST.

Small suppliers  
s 148

36. A credit union who is a small supplier may voluntarily register for purposes of the GST/HST.

Registration permitted  
240(3)

37. A listed financial institution, such as a credit union, resident in Canada may apply to be registered for purposes of the GST/HST even if it is not making any taxable supplies.

38. Chapter 2, *Registration*, of the GST/HST Memoranda Series provides further information on required registration, registration of small suppliers, and voluntary registration.

All GST/HST memoranda and other Revenue Canada publications are available on Internet at the Revenue Canada site <http://www.rc.gc.ca/> under the heading “Technical Information” in “General Information”.