



# **Guideline on the Application of Goods and Services Tax/Harmonized Sales Tax**

© Her Majesty the Queen in Right of Canada,  
represented by the President of the Treasury Board, 2013

Published by Treasury Board of Canada, Secretariat  
90 Elgin, Ottawa, Ontario, K1A 0R5, Canada

Catalogue Number: BT66-28/2013E-PDF  
ISBN: 978-0-660-09786-2

This document is available on the Government of Canada website, [Canada.ca](http://Canada.ca)

This document is available in alternative formats upon request.

Aussi offert en français sous le titre : Ligne directrice d'application de la taxe sur les produits et services  
et de la taxe de vente harmonisée

# Guideline on the Application of Goods and Services Tax/Harmonized Sales Tax

## 1. Effective date

This guideline took effect on July 1, 2010 and is amended April 1, 2013 reflecting Goods and Services Tax (GST) and Harmonized Sales Tax (HST) rates in place as of that date.

## 2. Context

2.1 This guideline supports section 6 of the *Directive on the Application of the Goods and Services Tax/Harmonized Sales Tax* (the Directive).

2.2 This guideline should be read in conjunction with:

- [Directive on the Payment, Collection and Remittance of Provincial Taxes and Fees](#);
- [Directive on the Application of the Goods and Services Tax/Harmonized Sales Tax](#);
- [Summary of Reciprocal Taxation Agreements with Provinces and Territories](#); and
- [Guideline on the Payment, Recording and Rebate of the Quebec Sales Tax](#).

and the Canada Revenue Agency's (CRA) notices:

- [GST/HST Notice 270: Elimination of the HST in British Columbia in 2013 Questions and Answers](#);
- [GST/HST Notice 276: Elimination of the HST in British Columbia in 2013 Transitional Rules for Real Property Including New Housing](#);
- [GST/HST Notice 278: Harmonized Sales Tax for Prince Edward Island Questions and Answers on General Transitional Rules for Personal Property and Services](#); and
- [GST/HST Notice 279: Harmonized Sales Tax for Prince Edward Island Questions and Answers on Transitional Rules for Housing and Other Real Property Situated in P.E.I.](#)

2.3 Note that the instructions included in this guideline and other supporting information are provided by the CRA in their role as the administrator of the GST/HST in most provinces.

## 3. Definitions

Definitions to be used in the interpretation of this guideline can be found in the *Directive on the Application of the Goods and Services Tax/Harmonized Sales Tax*.

## 4. GST/HST registration and reporting under section 6.1 of the Directive

### 4.1 Registration

4.1.1 The federal government entity consists of all departments, which are registered for GST/HST purposes with the Canada Revenue Agency (CRA), as one registrant under Business Number 121491807RT0001. Each department that provides taxable supplies (i.e. property or services) is to register with CRA as a separate reporting entity and request its own GST/HST account, which will contain the federal government entity's Business Number (121491807) plus a unique four-digit RT extension.

As an extension to the federal government entity's Business Number, each reporting entity is assigned a four-digit GST/HST account identifier number that begins with RT (e.g., RT0002, RT0003). The RT extension is the entity's own account number for GST/HST reporting purposes.

4.1.2 A department may have more than one reporting entity. Each reporting entity is to meet all the following conditions:

- The reporting entity provides taxable supplies;
- The reporting entity is Part of the department;
- The reporting entity maintains separate records, books of accounts and accounting systems and meets all the requirements of subsection 239(2) of the *Excise Tax Act*;
- Adequate accounting systems and controls are in place and a clear audit trail is established; and
- The reporting entity is responsible for meeting reporting requirements and is accountable for transferring the GST/HST collected or collectible to CRA.

4.1.3 As prescribed by the CRA, a department is to register a reporting entity with CRA for the GST/HST by:

- First, completing Form [GST 10, "Application or Revocation of the Authorization to File Separate GST/HST Returns and Rebate Applications for Branches or Divisions"](#). The deputy minister or a formally designated official is to sign

the form.

- Secondly, sending the original, completed form to:
  - Team Leader, Client Services  
Kingston Tax Services Office, Canada Revenue Agency  
Kingston ON K7L 5P3

including a covering letter requesting that the Team Leader send notification when the application has been processed.

It should be noted that once the reporting entity's application has been processed, the reporting entity's authorization to file separate GST/HST returns using its own assigned account with a unique four-digit RT extension (e.g. 121491807RTXXXX) remains in effect until revoked in writing.

4.1.4 Departments are to review their requirement to maintain multiple reporting entities on an annual basis. When a reporting entity no longer provides taxable supplies, ceases to exist, or other elements under section 4.1.2 no longer apply, the entity's authorization to file separate GST/HST returns is to be revoked using Form *GST 10, "Application or Revocation of the Authorization to File Separate GST/HST Returns and Rebate Applications for Branches or Divisions"*.

## 4.2 Reporting GST/HST on taxable supplies

### 4.2.1 Monthly reporting requirement

When a department provides taxable supplies, it is responsible for submitting monthly returns of GST/HST collected and collectible to CRA for each reporting entity it administers, as required by legislation. The GST/HST collected and collectible is transferred to CRA by interdepartmental settlement in the same period as the return is filed. Monthly GST/HST returns are filed using Form *GST 34, "Goods and Services Tax/Harmonized Sales Tax Return for Registrants"*.

As of July 1, 2010, the CRA requires that departments file the monthly return electronically. Refer to the [GST/HST NETFILE page of the CRA website](#) for further instructions.

### 4.2.2 How to complete the monthly return

- The CRA requires that each reporting entity is to file a monthly return with CRA using the personalized GST/HST return provided by CRA. This return is to be filed by the end of the month following the return's reporting period. Total revenue reported is the sum of all GST/HST revenue accounted for on the accrual basis. For months in which there are no GST, HST or adjustment amounts recorded, a NIL return is to be completed and filed with CRA.
- To make changes to your GST/HST account, including a change in address or telephone number, see [RC4022 General Information for GST/HST Registrants](#). Changes to the reporting entity, such as the addition or deletion of a reporting entity or a change to its name, is to be requested using Form *GST 10, "Application or Revocation of the Authorization to File Separate GST/HST Returns and Rebate Applications for Branches or Divisions"*.
- Requirements for completing the monthly return differ between Government of Canada reporting entities and other registrants. In the top Part of the form, government reporting entities complete only lines 101, 103, 104, 105, 107, 108, 109 and 113C. In the bottom part, only lines 101, 105, 108 and 109 are to be completed.
- General instructions for completing the return are found in publications issued by CRA, such as *RC 4022 General Information for GST/HST Registrants*. In addition, the following instructions apply:
  - **Line 101.** Sales and other revenue  
Do not include provincial sales tax(es), GST and HST.
  - **Line 103.** GST/HST collected or collectible  
Use line 103 for all GST and HST collected and collectible (i.e., whether the purchaser has paid or not).
  - **Line 104.** Adjustments  
Enter the total amount of adjustments to be added to net tax, for example, the GST/HST obtained from the recovery of a bad debt.
  - **Line 105.** Total GST/HST and adjustments for the period  
Add line 103 and 104.
  - **Line 106.** Input tax credits  
Do not complete this line. Input tax credits do not apply. The GST Refundable Advance Account (GST RAA) fulfils this function for government departments.
  - **Line 107.**  
Enter the total amount of adjustments to be deducted from net tax (e.g., GST/HST included in a bad debt that is written off).
  - **Line 108.** Total Input Tax Credit and adjustments  
Add line 106 and 107.
  - **Line 109.** Net tax  
Subtract line 108 from line 105, the difference is the net tax.
  - **Line 110 to 112.** Total other credits  
Do not complete the line for Instalments and Net Tax Paid, and Rebates; they are not applicable. The GST RAA fulfils this function for government departments.
  - **Line 113C.** Balance  
Line 113C is the same as the amount found on line 109.
  - **Line 115.** Payment enclosed  
Do not complete line 115. Departments do not enclose payment with the return.
  - **Line 205.** GST/HST due on acquisition of taxable real property

- Do not complete line 205. Government departments do not self-assess GST/HST.
- **Line 405.** Other GST/HST to be self-assessed
- Do not complete lines 405. Government departments do not self-assess GST/HST.

4.2.3 In addition to the monthly return, departments are to send an interdepartmental settlement (IS) to CRA each month to report the GST/HST collected, GST/HST collectible or both (i.e. a positive amount on line 113c). The amount reported on the IS should be identical to the net amount recorded in the GST/HST Liability Account for the period.

4.2.4 The authorized signature on the IS to CRA is the signature of the reporting entity's designated contact person.

4.2.5 When a reporting entity has adjustments that result in a negative amount on line 113c, the monthly return should show the negative amount. CRA will not issue a refund in this case, as it ordinarily would do for non-government registrants. This negative amount is carried forward as a reduction in line 104 in the next reporting period.

## 5. Payment of GST/HST on purchases under section 6.2 of the Directive

### 5.1 Approvals

Approval limits established under legislation, Regulations or Treasury Board policy or as defined by the deputy head include any duties and taxes. The application, however, depends on the particular wording found in the relevant legislation, regulations or policy. In the absence of wording specifically excluding duties and taxes from cost calculations, limits are inclusive of duties and taxes.

For the exercise of approval authorities, such as expenditure initiation and transaction authorities, the GST/HST is to be included in the total amount.

For the exercise of project or program approvals, the GST/HST is to be included in the total costs, including where project or program approvals are sought through the Treasury Board submission process. The total estimated cost (TEC) of a project or program is to be calculated both with and without GST/HST. The TEC excluding GST/HST is the amount that will be charged to the departmental appropriation. The GST/HST portion may be charged to the GST Refundable Advance Account (GST RAA). The TEC may also include GST/HST reimbursable to a non-registrant supplier (e.g., a foreign supplier) and this GST/HST portion is to be charged to the departmental appropriation.

### 5.2 Transfer payments

5.2.1 As defined in the [Policy on Transfer Payment](#), transfer payments are monetary payments or transfers of goods, services or assets made on the basis of an appropriation, to a third party, including a Crown Corporation, that do not result in the acquisition by the Government of Canada of any goods, services or assets. Transfer payments are categorized as grants, contributions and other transfer payments. Transfer payments do not include investments, loans or loan guarantees.

5.2.2 As set out in the guidelines in CRA Technical Information Bulletin B-067, [Good and Services Tax Treatment of Grants and Subsidies](#), transfer payments made for a public purpose where there is no direct link between the payment and a supply (e.g. property or a service) made by the grantee (recipient) to either the grantor (federal departments) or a specified third party, are not payments for a supply and are therefore not subject to GST/HST.

In this case, when a government department provides funding (e.g., through transfer payment agreements) to an outside party (the recipient) to undertake a project, the transfer payment agreement may provide that the funding can be used to reimburse all or a Part of the eligible project costs incurred by the recipient in carrying out the project. The GST/HST paid by the recipient on its input into the project may be considered to be Part of the eligible project costs under a transfer payment agreement except for those amounts that are eligible for an Input Tax Credit (ITC) or a GST/HST rebate. The portion of GST/HST cost that is not eligible for reimbursement through an ITC or a GST/HST rebate may be considered as Part of eligible project costs. However, this portion of GST/HST reimbursed to the recipient must be charged to the program's appropriation (e.g. Vote 10 appropriation) instead of the GST RAA.

5.2.3 It should be noted, however, that a transfer payment falling within Treasury Board's definition of a transfer payment may still be subject to GST/HST. This is the case where there is direct link between the transfer payment and a supply to the grantor (departments). The payment may be an amount payable for a supply for purposes of the *Excise Tax Act* (see B-067 *Goods and Services Tax Treatment of Grants and Subsidies (TIB)*), and may be subject to GST/HST. When in doubt as to whether GST/HST applies to a specific transfer payment, departments are to request a GST/HST ruling from CRA. While awaiting a CRA ruling, the department is to pay the amount of tax invoiced by the recipient. The RAA is in place as a mechanism for the department to account for the tax. In addition, any reimbursement to the recipient, net of any ITC or GST/HST rebate, would also be subject to GST/HST. In such circumstances the GST/HST paid or payable by the department on the net reimbursable amount may be charged to the GST RAA.

### 5.3 Contracts

5.3.1 When a government department enters into a contract to purchase taxable supplies, these payments may have tax implications. The terms of the contract are also to provide that the payment for the supplies excludes any ITC or GST/HST rebate that the contractor may be eligible for under the ETA.

5.3.2 When the supplier is a GST/HST registrant, and incurs an expense on its own account (i.e., not as an agent of a federal department) in providing taxable supplies to a department, the supplier is generally eligible to claim an ITC for any GST/HST

paid on the expense. In these cases the reimbursement amounts payable by a department pursuant to the contract (i.e., expense amount excluding GST/HST ITC) is treated as additional payment for the taxable supply to the department. Accordingly the reimbursement is subject to the GST/HST at the same rate as the taxable supplies. The GST/HST payable by a department on the reimbursement may be charged to the GST RAA.

5.3.3 When the supplier is not a GST/HST registrant, and incurs an expense on its own account in providing taxable supplies to a department, it is not eligible to claim an ITC under the ETA. In these cases, the reimbursable amounts (i.e., supplier's expense amounts including GST/HST paid by the supplier on the expenses less any GST/HST rebates) will be treated as additional payment for the taxable supply. However, as the supplier is not a GST/HST registrant the payment will not be subject to the GST/HST. In these cases, the GST/HST included in the reimbursable amount represents a cost to the department and not the GST/HST paid or payable by the department; therefore, it is charged to the appropriation and not the GST RAA.

5.3.4 When a supplier incurs an expense as an agent on behalf of a department in providing taxable supplies to the department, the supplier is not eligible to claim an ITC or a rebate under the ETA for the GST/HST paid on the department's expense, even if the supplier is a GST/HST registrant. In these cases, the department would reimburse the supplier for the total of the expense and the GST/HST that the supplier incurred as an agent on behalf of the department. The GST/HST included in the reimbursement amount represents the department's GST/HST payable and may be charged to the GST RAA.

## 5.4 GST/HST on expenses reimbursed to employees

5.4.1 A reimbursement is a payment made by an employer to repay an employee for expenses (e.g., courses, transportation and office supplies) he or she personally incurred for the purpose of government business. An amount constitutes a reimbursement where the amount is fully accounted for by the employee receiving the payment (i.e., the employee is required to provide receipts or documentation to the employer.) Note that reimbursements to employees do not include amounts paid on an account for which the department is solely liable (e.g., departmental acquisition cards, departmental travel expense accounts and departmental travel expense cards).

5.4.2 The GST RAA may be charged for GST/HST incurred on expenses reimbursed to employees. Because GST/HST is not applicable outside Canada, when a claim includes expenses incurred both within and outside Canada, the GST/HST to be charged to the GST RAA is to be calculated on the Canadian portion only.

5.4.3 There are two methods to calculate the amount of GST/HST chargeable to the GST RAA on reimbursable expenses. These factors recognize that the total expense may include gratuities, provincial sales tax and other amounts not subject to the GST/HST.

- **Method 1:** 4/104ths, 12/112ths, 13/113ths and/or 14/114ths. This method consists of calculating 12/112ths (or 10.71%) of the total amount of reimbursable expenses incurred in New Brunswick, Newfoundland and Labrador and Ontario; 13/113ths (or 11.50%) of the total amount of reimbursable expenses incurred in Prince Edward Island; 14/114ths (or 12.28%) of the total amount of reimbursable expenses incurred in Nova Scotia; and 4/104ths (or 3.85%) of the total amount of reimbursable expenses incurred in the remaining provinces; and charging the amount to the GST RAA. When an employee's claim includes expenses from a GST province and a HST province, the RAA charge would be calculated using the 12/112ths HST tax formula (or 13/113ths in Prince Edward Island and 14/114ths in Nova Scotia) only if 90% of the total expenditure were incurred in a HST province. When the 90% HST rule is not met, then the 4/104ths GST tax formula would be applied to calculate the GST RAA tax component in case where the breakdown of total expenditures in different provinces is not available.
- **Method 2:** This method involves using the actual amount of GST/HST incurred on all expenses. In some cases, the actual amount of GST/HST will be shown on the invoice; in other cases, it will be necessary to calculate the GST/HST embedded in a tax-included price shown on the invoice.

5.4.4 Departments may choose to apply one of the above methods to all expenses reimbursed to employees or may select one for each type of reimbursable expenses, which may include relocation, memberships, course fees, etc.

5.4.5 Departments are to identify the method chosen and document their reasons for the choice. The method chosen is to be applied consistently throughout the entire department for a complete fiscal year. Any change to the calculation method can be implemented only at the beginning of a fiscal year and is to be documented along with the reasons for the change.

## 5.5 GST/HST on allowances paid to employees

5.5.1 An allowance is any periodic or other payment that an employee receives from an employer without having to account for how it was spent.

5.5.2 The GST RAA may be charged for GST/HST on allowances paid to employees to cover employee costs that are incurred in Canada and originally subject to tax.

5.5.3 Examples of allowances include meal allowances, incidental allowances, and standard kilometric rates as set out under the National Joint Council [Travel Directive](#).

5.5.4 The method used to calculate the amount of GST/HST on allowances consists of calculating 13/113ths (or 11.50%) of allowances paid for expenses incurred in New Brunswick, Newfoundland and Labrador, and Ontario; 14/114ths (or 12.28%) of allowance paid for expenses incurred in Prince Edward Island; 15/115ths (or 13.04%) of allowances paid for expenses incurred in Nova Scotia; and 5/105ths (or 4.76%) of allowances paid for expenses incurred in the remaining provinces.

5.5.5 When an employee's travel claim includes expenses from a GST province and an HST province, the RAA charge would

be calculated using the 13/113ths HST tax formula (or 14/114ths in Prince Edward Island and 15/115ths in Nova Scotia) only if 90% of the total expenditure were incurred in an HST province. When the 90% HST proportion is not met, then the 5/105ths GST tax formula would be applied to calculate the RAA tax component in cases where the breakdown of total expenditures in different provinces is not available.

## 5.6 Imported goods

5.6.1 Goods imported into Canada are generally subject to the GST/HST.

5.6.2 A foreign supplier may voluntarily register or be required to register for purposes of the GST/HST. If the foreign supplier is a GST/HST registrant, departments are to pay the GST/HST invoiced, as long as the invoice meets format requirements (see section 6.6.3). The invoice is to be paid as presented. The GST/HST is then charged to the GST RAA in the usual manner. If there is any reason to question the legitimacy of the supplier charging GST/HST, a confirmation of the foreign supplier's registration status may be sought from the CRA Business and GST/HST Registration enquiries line at 1-800-959-5525.

5.6.3 A foreign supplier that imports taxable goods to supply a department but is not a GST/HST registrant is not entitled to claim an input tax credit (ITC) or a rebate for the GST/HST paid or payable by the foreign supplier on goods used, consumed or supplied in the course of making the taxable goods to the department. The foreign supplier will include an amount to cover the GST/HST costs in the price of the goods or as a reimbursable amount. Departments are to pay the foreign supplier the total price charged. In these cases, the GST/HST included in the price of the goods represents a cost reimbursement; therefore, it is charged to the department's appropriation and not the RAA.

5.6.4 Generally, a foreign supplier that is a GST/HST registrant who imports taxable goods to supply in Canada to a department is entitled to claim an ITC for any GST/HST paid or payable on taxable goods used, consumed or supplied in the course of making that supply. Therefore, departments are not to reimburse such GST/HST paid by these registrants as they are entitled to recover the GST/HST paid or payable through the ITC claim.

5.6.5 Departments importing taxable goods acquired outside of Canada are to pay the applicable GST/HST in respect of such importations. Importation of taxable goods into participating provinces (including importation of taxable goods by federal departments) that are accounted for as commercial goods are subject to only the federal portion of the HST. Importations into non-participating provinces are subject to the GST. The federal portion of the HST and the GST are the same amount. The GST/HST is paid to the Canada Border Services Agency through the Interdepartmental Settlement System. The department may charge the GST/HST to the GST RAA.

5.6.6 A customs broker who imports taxable goods as an agent of a federal department may pay the GST/HST on the department's behalf. The amount paid by the customs broker as an agent for a federal department in respect of the taxable importation of commercial goods should only be the federal portion of the HST or the GST where applicable. The customs broker is not entitled to claim an input tax credit for the amount of that tax. The department is to reimburse the customs broker for the GST/HST paid, and the applicable GST/HST may be charged by the department to the GST RAA.

## 5.7 Self-assessment

Under the *Excise Tax Act* (ETA), self-assessment generally refers to the obligation of a recipient of taxable goods or services to calculate and remit the GST/HST on such purchases in situations where the supplier is not required to collect and remit the GST/HST. Departments are not subject to the self-assessment provisions of the ETA.

## 5.8 Invoices

5.8.1 Invoices without GST/HST included

When departments receive invoices for taxable supplies that do not include GST/HST (i.e., the appropriate tax has not been charged), the following circumstances will dictate the action to be taken.

- Purchases from non-registrants are not subject to GST/HST and may be paid without GST/HST implications. Non-registrants include most non-residents and small suppliers, persons whose total revenues from taxable supplies (subject to certain exceptions) and those of their associates in the four calendar quarters preceding the present quarter do not exceed \$30,000 or, in the case of departments, \$50,000. However, it should be noted that some small suppliers may have registered voluntarily and some non-residents may be required to register or may have registered for certain GST/HST purposes. If the supplier claims to be a non-registrant but there is doubt concerning this status, confirmation of the status may be sought from the CRA Business and GST/HST Registration enquiries line at 1-800-959-5525 or online using the GST/HST Registry. Otherwise, the invoice should be paid as presented.
- When a contract exceeds \$30,000 or \$50,000 for a department, or there is reason to believe that the supplier is required to be registered for GST/HST (e.g., a non-resident carrying out business in Canada) and is therefore a GST/HST registrant, the department is to contact the supplier. If the supplier does not provide a reasonable explanation for not charging the GST/HST, the invoice should be paid as presented, the case should be referred to the local Tax Services Office of CRA, and the supplier should be informed of the referral.

5.8.2 Invoices without GST/HST information

When invoices received include GST/HST but do not comply with specified invoice format requirements (see Section 6.6, "Invoice format requirements"), an amended invoice is to be obtained from the supplier. An invoice that follows the proper format is required for remitting the tax payable. If non-compliance with invoice format for GST/HST is the only problem, then the

date of the original invoice should be used to ensure requirements for payment on due date are met.

## 5.9 Disputes with suppliers over payment of GST/HST invoiced

5.9.1 Suppliers that are GST/HST registrants are always liable for remitting GST/HST to CRA even where the GST/HST remains uncollected. Where GST/HST is not remitted as required under the ETA the supplier may also be liable for applicable penalties and interest. Departments are not to engage in a dispute with the supplier over the GST/HST portion of the invoice.

5.9.2 A department may seek advice from CRA (see Section 6.4, "GST/HST rulings") to determine its responsibility for paying the GST/HST invoiced by a supplier. Even when awaiting advice or a ruling from CRA, the department should pay the amount of tax invoiced by the supplier because the RAA mechanism is in place for the department to account for the tax.

## 6. Provision of taxable supplies under the provisions of section 6.3 of the Directive

### 6.1 Determining the GST/HST status

6.1.1 As a general rule under the ETA, all supplies provided in Canada by a supplier who is a GST/HST registrant are taxable at 5% GST; 13% HST in New Brunswick, Newfoundland and Labrador, and Ontario, 14% HST in Prince Edward Island and 15% HST in Nova Scotia; or 0% for zero-rated supplies, unless specified otherwise. Some supplies (e.g. goods) made in Canada, such as exports, are zero-rated in specified circumstances. Supplies to which the GST/HST does not apply include exempt supplies, supplies deemed not to be a supply under the ETA, supplies made outside Canada, and supplies deemed to be made outside Canada.

- For general information on the GST/HST, consult the [GST/HST General Information page on the Canada Revenue Agency website](#).
- For a list of examples of exempt supplies, consult the [Exempt goods and services page on the Canada Revenue Agency website](#).
- For a list of examples of zero-rated supplies, consult the [Zero-rated \(0%\) goods and services page on the Canada Revenue Agency website](#).

6.1.2 When determining the application of the GST/HST, the following should also be considered:

- The [place of supply as described in the GST/HST Technical Information Bulletin B-103](#) (whether in or outside of Canada or in or outside of a participating province) affects the application of the GST/HST.
- The tax status of each supply and the rationale for the tax status decision should be kept on file and regularly updated for administrative and audit purposes.
- Supplies provided to parties outside the government by way of barter, transfer or exchange may be subject to GST/HST, depending on the tax status of the supplies bartered, transferred or exchanged. In the case of certain barter transactions, the value, or Part thereof, may be deemed to be nil.
- Supplies provided between federal government departments (which are Part of the same GST/HST registrant) are not taxable supplies for purposes of the ETA and are not subject to the GST/HST.

### 6.2 Fees and charges set by Regulations

6.2.1 When a fee or charge set by Regulations is a payment for a taxable supply, it is not considered to be a "tax included" amount. GST/HST is to be charged on the fee or charge depending on the place of supply. Some fees and charges set by Regulations are payment for supplies that may be exempt under provisions of the ETA, such as Schedule V, Part VI of the ETA, in which case no GST/HST is to be charged.

6.2.2 In addition, it should be noted that some fees and charges set by Regulations are not payments for a supply for purposes of the ETA and therefore are not subject to GST/HST.

### 6.3 GST/HST exemption for the federal government Supplies of water distribution, sewerage or drainage services and supplies of water

6.3.1 Section 22 of Part VI of Schedule V of the ETA exempts "a supply of a service, made by a municipality or by an organization that operates a water distribution, sewerage or drainage system and that is designated by the Minister of National Revenue to be a municipality for the purposes of this section, installing, repairing, maintaining or interrupting the operation of a water distribution, sewerage or drainage system".

6.3.2 Section 23 of Part VI of Schedule V of the ETA exempts "a supply of unbottled water (other than a zero-rated supply and a supply of water dispensed in single servings to consumers through a vending machine or at a permanent establishment of the supplier) when made by a person other than a government or by a government designated by the Minister of National Revenue to be a municipality for the purposes of this section". In addition, this section exempts "the service of delivering water when the service is supplied by the supplier of the water and that supply of water is exempt".

6.3.3 Effective September 1, 1992, the federal government registrant has been designated a municipality for the purposes of sections 22 and 23 of Part VI of Schedule V of the ETA. As a result, a federal department does not collect GST/HST where it makes supplies as described in sections 22 and 23 of Part VI of Schedule V to the ETA as summarized under sections 6.3.1 and 6.3.2.



6.3.4 In addition, since September 1, 1992, the federal government registrant has been designated a municipality for the purposes of section 259(1) of the ETA, in respect of the making of the supplies described in sections 22 and 23 of Part VI of Schedule V of the ETA. As a result of this designation, since a 100% rebate is available for the GST and the federal component of the HST paid or payable on inputs consumed, used or supplied in the course of the designated activities that involve making these exempt supplies. See the chart in Section 6.3.6 for the rebates available for the provincial component of the HST.

6.3.5 As a result of this municipal designation, federal government departments may, under subsection 259(1) of the ETA, claim a rebate equal to 100% of the GST and 100% of the federal component of the HST incurred in the HST provinces of New Brunswick, Nova Scotia, Newfoundland and Labrador, Ontario, and Prince Edward Island, as a debit in the GST RAA in respect of the designated activities.

6.3.6 The HST rebate available to federal government departments located in the HST provinces for the provincial component of the HST under subsection 259(1) of the ETA in respect of designated activities as follows:

	Federal Component of the HST (5%)	Provincial Component of the HST				
		New Brunswick (8%)	Nova Scotia (10%)	Newfoundland and Labrador (8%)	Ontario (8%)	Prince Edward Island (9%)
<b>Municipal Rebate</b>	100%	57.14%	57.14%	0%	78%	0%

6.3.7 When a department determines that costs for the delivery of municipal services are to be recovered from users, it may have to account for the cost of GST/HST that is not otherwise relieved in whole or in Part through the municipal rebate. For example, the cost of tax (i.e., the non-recoverable provincial portion of the HST in certain provinces) should be considered when setting prices or cost recovery charges to users for municipal services in the provinces of:

- Nova Scotia and New Brunswick, where 42.86% of the provincial component of the HST is not eligible for the rebate;
- Newfoundland and Labrador and Prince Edward Island, where 100% of the provincial component of the HST is not eligible for the rebate; and
- Ontario, where 22% of the provincial component of the HST is not eligible for the rebate.

6.3.8 Some departments that provide the supplies described in sections 22 and 23 of Part VI of Schedule V of the ETA do not account for the costs of making such supplies separately from the other costs of their operations. It is therefore difficult to claim the municipal rebate at the time the inputs are paid for. To avoid departments having to establish costly supplementary processes for separating GST/HST on inputs for these exempt supplies, officials at CRA and the Department of Finance have proposed an alternative.

For each fiscal year, a department may choose one of the following methods to account for the municipal rebate for GST/HST paid on inputs used to supply water, sewerage or drainage services.

- **Method 1:** At the time when the GST/HST is paid, record the percentage of municipal rebate available (see chart in Section 6.3.6) as a debit in the GST RAA and the balance to the chargeable appropriation.  
OR
- **Method 2:** At the time when the GST/HST is paid, record the total GST/HST paid as a debit in the GST RAA. Following the procedure outlined below, departments are required to make an annual adjustment entry.
  - In lieu of claiming a municipal rebate for GST/HST on inputs for the provision of water, sewerage and drainage services, reporting entities calculate an HST Municipal Rebate Adjustment Amount annually. In New Brunswick and Nova Scotia, this adjustment amount is 42.86% of the estimated provincial component of the HST incurred on inputs during the year for water, sewerage and drainage services, whereas in Newfoundland and Labrador and Prince Edward Island, the adjustment amount is 100%; and in Ontario, the adjustment amount is 22%.
  - The adjustment amount will be recorded as a credit in the GST RAA and a debit in the operating accounts to which the expenses for the supplies are charged during the course of the year. When determining the fees to be charged for the supply of water, sewerage and drainage services, the adjustment amount is the portion of the HST that is to be considered as Part of the cost of providing these municipal services.
  - When the costs of these exempt supplies are determined in whole or in Part by an allocation methodology, the same allocation basis is to be used to determine the adjustment amount. The calculation and any methodology used to estimate the adjustment amount is subject to audit by CRA, as are all GST/HST transactions.

## 6.4 GST/HST rulings

6.4.1 For questions on the application of GST/HST to a government program or a specific transaction, please refer to Section 10, "Enquiries," of the Directive.

6.4.2 To avoid any possible misinterpretation of the ETA, departments may, through or with the consent of their GST/HST Coordinator, request an official written ruling or interpretation from the CRA Tax Services Office when the GST/HST status of a transaction is in doubt.

6.4.3 Departments may request a written ruling or an interpretation of the application of the GST/HST under the ETA from CRA. CRA rulings are specific to a clearly defined factual situation, are issued only when all relevant facts are provided, and are binding on the CRA. An interpretation is a general written explanation of how the ETA will apply to the facts of the given situation. A GST/HST interpretation may apply to departmental programs as a whole but does not bind CRA or absolve departments from GST/HST liabilities if they incorrectly apply CRA's interpretation or opinion to a specific transaction.

## 6.5 Taxable employee benefits

6.5.1 Some employee benefits are subject to GST/HST. The ETA and the [Income Tax Act](#) are the sources for determining which benefits and benefit amounts are subject to GST/HST. HST applies to the employee benefit when the location of employment is in New Brunswick, Nova Scotia, Newfoundland and Labrador, Ontario, or Prince Edward Island.

6.5.2 Generally, an employee benefit is subject to GST/HST when the benefit results from the supply (other than an exempt or zero-rated supply) and the benefit is included in the calculation of an employee's income, according to paragraph 6(1)(a), (e), (k) or (l) of the *Income Tax Act*. Therefore, the whole amount received, including GST/HST, is included in the employee's income as a taxable benefit.

6.5.3 When a department pays a supplier for supplies used to provide a taxable benefit to an employee, any GST/HST included in the payment may be recorded as a debit in the GST RAA. When the taxable benefit is included in the employee's income for the year, the GST/HST that the department paid, or that is payable for the property or services used to provide the benefit, is to be added to the amount of the benefit. In effect, the employee "pays" the GST/HST on the benefit and the department "collects" it. Technically, the department is considered to have collected GST/HST from the employee, and the GST/HST is considered to have been paid by the employee on supplies received from the department as a private individual.

6.5.4 Ordinarily, under section 173 of the ETA, when a GST/HST registrant provides a taxable supply to an employee that results in a taxable benefit to the employee, the registrant is required to remit tax on that benefit, although no tax is actually collected from the employee. This rule does not apply to government departments, and departments do not remit the tax on taxable benefits. However, departments are to determine the appropriate amount of GST/HST to be included in calculating an employee's taxable income.

### 6.5.5 Supplies to Indians and Indian bands

- Generally, individual Indians and Indian bands may purchase property free of GST/HST when the property is provided on or delivered to a reserve. Services are generally free of GST/HST when they are performed for Indians on reserve or when a band or band-empowered entity purchases them for band management activities.
- When providing taxable supplies to Indians and Indian bands free of GST/HST, departments are to maintain evidence of the tax-free status of the purchaser (e.g., copy of an individual's Indian Status Card or a certificate provided by a band), including evidence of delivery to a reserve when applicable. For more information, see CRA Technical Information Bulletin B-039, [GST/HST Administrative Policy Application of the GST/HST to Indians](#).
- Ontario First Nations point-of-sale relief  
Property and services acquired by Indians and Indian bands off a reserve in Ontario without the property being delivered to a reserve and the services being performed on a reserve, will generally be subject to the HST as of July 1, 2010. However, since September 1, 2010, point-of-sale relief equal to the 8% provincial Part of the HST is provided for qualifying off-reserve supplies of property or services to eligible Ontario First Nations purchasers. For more information on qualifying off-reserve supplies of property or services and who is eligible for the relief, refer to the Ontario Ministry of Finance's Harmonized Sales Tax Guide 80, [Ontario First Nations Point-of-Sale Exemptions](#).

### 6.5.6 Supplies to provincial government entities

- The federal government enters into Reciprocal Taxation Agreements with most of the provinces and territories to set out negotiated arrangements for the reciprocal payment of taxes and fees levied by the respective governments. Each agreement contains a listing in Schedule A to the agreement of all provincial and territorial government entities, all departments or ministries, and some Crown corporations, boards, commissions and agencies that are entitled to full relief from the GST/HST, either at the point of purchase or as a rebate of tax paid.
- By agreement, Nova Scotia, New Brunswick, Newfoundland and Labrador, Ontario, British Columbia, Prince Edward Island and Nunavut have agreed to pay GST/HST and claim a subsequent rebate. Effective April 1, 2013, Quebec has also agreed to pay GST/HST through the "pay and rebate mechanism".
- The remaining provincial/territorial government registrants (Alberta, Saskatchewan, Manitoba, Northwest Territories and Yukon) do not pay GST/HST as they receive point of sale relief.
- When selling to provinces and territories that do not pay GST/HST, it is essential to know which provincial/territorial entities receive point of purchase relief from the GST/HST. If there is any doubt as to whether a particular entity is Part of a provincial or territorial government and is entitled to relief from the GST/HST, departments may contact the local Tax Services Office of CRA to confirm the entity's status.
- For CRA audit purposes, departments are to obtain sufficient evidence to support the non-collection of the GST/HST on purchases by a provincial or territorial government entity and keep it on file. Evidence could include invoices, purchase orders or contracts made out to a provincial or territorial entity or a certification clause signed by an authorized provincial or territorial official stating that a purchase has been made by the particular entity.

## 6.6 Invoice format requirements

6.6.1 The Government of Canada's Business Number for GST/HST purposes is 121491807RT0001. This number is to be shown on invoices or receipts for property and services supplied by departments. Departments that have separate reporting

entities, established under subsection 239(1) of the ETA, and have been assigned unique GST/HST account identifier extensions (i.e., RT0001) may use their respective RT extensions on invoices and receipts instead of the federal government entity's RT0001 extension.

6.6.2 The legislation permits the GST/HST to be recorded in one of two ways: included in the invoiced amount of the supply or shown as a separate line item. To facilitate billing, price adjustments and the purchaser's claim for input tax credits and to accommodate GST/HST rate changes, departments are encouraged to show the GST/HST on a separate line.

6.6.3 In general, invoice requirements under GST/HST legislation follow normal business practice, with the addition of information specific to the GST/HST charged and the Business Number. Invoices are also understood to mean "receipts" for cash sales when no invoice is issued. The disclosure requirements for invoices can be found at CRA's website "GST/HST Invoice requirements".

## 6.7 Collection of GST/HST Purchaser's failure to pay GST/HST

When a purchaser of government property and services refuses to pay the GST/HST on cash sales, the property and services should not be provided. When a purchaser refuses to pay the GST/HST on a credit sale, the tax is to be set up as an account receivable and the department should take an appropriate collection action. The department is to remit the GST/HST collectible to CRA, whether or not the purchaser pays the tax.

# 7. Accounting for GST/HST under section 6.4 of the Directive

## 7.1 Accrual basis Liability accounts

### 7.1.1 Accounting entries Purchase of taxable supplies

- When acquiring taxable supplies, departments are to record the GST/HST payable to the suppliers at the same time as the related supplies are recorded in the departmental accounting system. The GST/HST payable is to be recorded in the RAA. The full amount of the invoice is to be recorded as an account payable.
- The balance in the department's RAA is to be cleared at year-end and transferred to CRA on March 31. CRA will authorize the remission, as provided for under the *GST Federal Government Department's Remission Order* (Tax Remission Order).
- If GST/HST is recorded as a result of any prior-year payable established after the March 31 transfer to CRA, it will be rolled over as the opening balance in the GST RAA.
- For sample journal entries, see Section 9.3, "Sales Taxes," in the *FIS Accounting Manual* and Appendix 10 of Chapter 14, "Year End Timetable and Procedures," in the *Receiver General Manual*.

### 7.1.2 Charges to the GST RAA

Only GST/HST payments that are relieved of tax pursuant to the Tax Remission Order may be charged to a department's GST RAA. Generally, there are three classes of GST/HST payments that may be charged to the GST RAA:

- GST/HST on taxable supplies of property and services payable by a department;
- GST/HST paid on reimbursable expenses incurred by public service employees and other individuals appointed as agents of Her Majesty (such as commissioners and board members appointed by the Governor in Council) in the course of carrying out government business (e.g., courses, transportation and supplies excluding the payments made on the acquisition cards, departmental travel expense cards and departmental travel expense accounts); and
- GST/HST on allowances paid to employees (e.g., meal allowances, daily incidentals and standard kilometric rates).

### 7.1.3 Accounting entries Provision of taxable supplies

- All GST/HST charged by departments to their customers is to be recorded on an accrual basis in the GST/HST Liability Account, financial reporting account 21134, until the amounts are transferred to CRA.
- When providing taxable supplies, the GST/HST collectible on each taxable supply is to be recorded in the departmental accounts at the time that transactions are invoiced. The sale, including applicable GST/HST, is to be recorded as an account receivable. When the department receives payment, the full amount of the payment, including the GST/HST, is to be deposited and credited to accounts receivable. In the month that the sale is to be reported on the CRA return (i.e., sales that occurred for the previous month), the GST/HST payable is to be transferred to CRA by Interdepartmental Settlement (IS) in that same month.
- The balance in each departmental GST/HST Liability Account for sales made during March will be transferred to CRA in April of the new fiscal year.
- For sample journal entries, see Section 9.3, "Sales Taxes", in the [Financial Information Strategy Accounting Manual](#) (FIS Accounting Manual) and Appendix 10 of Chapter 14, "Year End Timetable and Procedures," in the *Receiver General Manual*.

### 7.1.4 Specified purpose accounts GST liability

GST/HST is to be paid and accounted for appropriately when taxable supplies are purchased using specified purpose account (SPA) funds. Please consult the [Directive on Specified Purpose Accounts](#). In the majority of cost-sharing and joint project

agreements, it is required that GST/HST on the purchase of taxable supplies made with SPA funds be charged to the SPA and not the RAA.

#### **Exceptions to charging GST/HST to the SPA:**

- When the SPA expenditure is not taxable; and
- When the contributor is not subject to GST/HST (i.e., the province). This is the only situation when the RAA account would be charged for taxable purchases using SPA funds.

#### **7.1.5 GST/HST paid in error**

When tax has been paid in error on a purchase made by a government department, a rebate claim for this tax should not be filed because the GST/HST paid has been charged to the department's GST RAA.

#### **7.1.6 Discounts and interest**

- GST/HST is calculated on the net price of supplies. Discounts for volume purchasing, provided at the time the supplier issues an invoice, are price reductions. Therefore, GST/HST is applied to the price after such discounts are taken into account.
- If a supplier provides a volume discount after having charged the GST/HST, it is up to the supplier to decide at what point in the transaction the discount is to apply. The supplier may adjust the GST/HST after it was charged or refund or credit the GST/HST after it was collected. The supplier may also provide the volume discount without adjusting, refunding or crediting the GST/HST.
- Interest charges for late payment and discounts for early payment do not affect the amount of GST/HST applicable to the transaction.
- The interest charges on overdue accounts receivable are to be calculated on the total amount of the invoice, including any GST/HST and other taxes and duties due. These charges represent the extra financing cost of carrying the overdue amounts and apply equally to taxes and to the price of the supplies billed or provided.
- Charging interest on late payments applies to both accounts receivable owing to the government and to late payments made by the government. The interest payable to suppliers on any late payment (including that on the GST/HST portion of the account) is to be charged to a departmental appropriation in the case of interest paid by the government and credited to non-tax revenue in the case of interest received.

#### **7.1.7 Penalty and interest**

If a department fails to comply with the ETA, it will not be required to pay a penalty or interest. However, departments are to avoid situations in which penalty and interest charges would normally have applied.

#### **7.1.8 Audit trail and supporting documentation**

- An audit trail and supporting documentation are to be maintained, including receipts, invoices and expense claims, for all charges to the GST RAA.
- Records are to be maintained on the taxability of the products and services departments provide, including any exemption. An audit trail and supporting documentation are also maintained for sales invoices, payments and receivables.
- All books and financial records relating to GST/HST receipt, payment and accounting are to be retained for a period of six full years after the end of the year to which they relate.

#### **7.1.9 Current year refunds of expenditures**

Departments that return property to suppliers are responsible for matching refunds back to the original GST/HST charges and for making the necessary credit entries to the GST RAA.

#### **7.1.10 Refunds of prior year's expenditures after closing the year**

For refunds of previous year's expenditures after the year has been closed, the portion representing the actual cost of the supplies is to be coded against "Refunds of Previous Year's Expenditures." Any GST/HST refunded is to be credited to the GST RAA of the current year.