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Guide to Collecting and Paying Federal and Provincial Sales Taxes

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Guide to Collecting and Paying Federal and Provincial Sales Taxes

1. Date of publication

This guide was published on November 22, 2019.

This guide replaces the following documents:

- *Guideline on the Application of Goods and Services Tax/Harmonized Sales Tax*, dated April 1, 2013
- *Guideline on the Payment, Recording and Rebate of the Quebec Sales Tax*, dated April 1, 2013

2. Application, purpose and scope

This guide applies to the organizations listed in section 6 of the *Policy on Financial Management*.

The purpose of this guide is to support departments in clarifying their role in relation to the Goods and Services Tax / Harmonized Sales Tax (GST/HST), Quebec sales tax (QST), provincial sales tax (PST) and Provincial Tax and Fee (PTF), where applicable under the relevant legislation, when departments are:

- **charging, collecting and remitting taxes** on the sale of taxable supplies of property or services
- **paying taxes** on their purchases of taxable supplies of property or services

It does not impose additional requirements, but rather elaborates on existing obligations under legislation, regulations, policies, directives, standards or other authorities.

This guide supports the requirements set out under the Treasury Board *Directive on Payments* and *Directive on Public Money and Receivables*. Examples are provided for illustrative purposes only and may not apply to all departments or situations.

The management of taxes is a complex subject. Readers should therefore:

- refer to the contacts listed in section 6 of this guide when necessary
- familiarize themselves with the various laws and regulations of federal and provincial sales taxes and fees

This guide should be read in conjunction with guidance provided by:

- the Canada Revenue Agency (CRA)
- applicable provincial and territorial governments

Section 3 of this guide outlines the guiding principles for managing federal and provincial sales taxes and fees in departments.

Section 4 provides an overview of the different types of federal and provincial sales taxes and fees, and explains departments’ responsibilities in relation to each sales tax and fee.

Appendix A describes a department’s responsibilities, processes, accounting and reporting requirements for charging and collecting taxes when it sells a taxable supply (in other words, when the department is a vendor).

Appendix B describes a department's responsibilities, processes, accounting and reporting requirements for paying taxes when it purchases a taxable supply (in other words, when the department is a purchaser).

3. Guiding principles for managing federal and provincial sales taxes and fees in departments

The following are guiding principles for departmental chief financial officers (CFOs) to ensure that taxes are appropriately collected or paid when the department sells or purchases taxable property and services:

- Identify a departmental tax coordinator (see subsection 3.1 of this guide)
- Maintain separate records and accounts for each reporting entity (according to the requirements of subsection 239(2) of the *Excise Tax Act*) when separate GST/HST reporting entities for their department or the organizational units within their department are established with the CRA (see subsection A.2.2.2 of this guide)
- Maintain records and accounts for provincial taxes and fees (see subsection A.3.2.7.1 of this guide)
- Conduct periodic reviews to determine whether the taxes have been completely and accurately collected or paid and reported, when required (see section B.4.2 of this guide)
- Ensure compliance with federal and provincial tax laws and regulations, such as the *Excise Tax Act* (see subsection 3.2 of this guide)
- Establish departmental practices to ensure that taxes are included in the total cost when expenses are submitted for approval limits provided under legislation, regulations or Treasury Board policy (see subsection 3.3 of this guide)
- Ensure that departmental managers understand their responsibilities related to the collection and payment of federal and provincial taxes and fees (see section Appendix A and B of this guide)

3.1 Identify a departmental tax coordinator

It is a best practice to identify a departmental tax coordinator, ideally someone in the finance branch, to take responsibility for:

- providing advice and guidance on taxation and fees
- ensuring that taxes and fees are recorded and reported correctly

3.2 Compliance with the Excise Tax Act

Government departments, as both vendors and purchasers of goods and services, are required to comply with Part IX of the Excise Tax Act and its related schedules and regulations.

If a department fails to comply with the *Excise Tax Act*, it will not be required to pay penalties or interest. However, departments are to avoid situations in which penalties and interest would normally have applied.

Self-assessment

In accordance with the *Excise Tax Act* and the *Act Respecting the Québec Sales Tax*, self-assessment refers to the obligation of a recipient of taxable goods or services to calculate and remit the GST/HST or the QST on purchases where the supplier is not required to collect and remit the GST/HST or QST.

Departments are not subject to the self-assessment provisions in the *Excise Tax Act* and the *Act Respecting the Québec Sales Tax*.

3.3 Inclusion of taxes when calculating the total cost for approval limits

The financial approval limits established under legislation, regulations or Treasury Board policy, or as defined by the minister or the deputy head include any duties and taxes subject to governing instruments such as relevant legislation, regulations or policies.

For example, when they apply, the GST/HST and QST are to be included in the calculation of the total cost when seeking approval for the exercise of spending and financial authorities (such as expenditure initiation).

If the governing instruments contain specific wording that excludes taxes from cost calculations, then the approval limit is applied without duties or taxes. However, in the absence of specific wording that excludes duties and taxes from cost calculations, the approval limits should include duties and taxes.

For the purposes of obtaining project or program approvals, the GST/HST or QST 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 of a project or a program is to be calculated both with and without GST/HST and QST. The amounts excluding the GST/HST and QST will be charged to the departmental appropriation. The GST will be charged to the GST Refundable Advance Account (RAA), and the QST will be charged to the QST RAA.

4. Overview of taxes

This section of the guide provides an overview of the different types of federal and provincial sales taxes and other taxes and fees. Departments are involved in taxes when they sell or purchase a taxable supply. The application of these taxes and fees are covered in detail in this guide.

4.1 Overview of federal sales tax (GST/HST)

4.1.1 What is GST/HST?

The Goods and Services Tax (GST) was introduced by the Government of Canada on January 1, 1991, as a percentage consumption tax payable by the purchaser.

On April 1, 1997, the *Excise Tax Act* was amended to implement the Harmonized Sales Tax (HST). The HST is a single harmonized sales tax that combines the provincial sales tax and the federal GST in certain provinces. The HST applies in the provinces that have signed a comprehensive integrated tax coordination agreement (CITCA) with the federal government. Part III.1 of the *Federal-Provincial Fiscal Arrangements Act* provides for the Government of Canada to enter into sales tax harmonization agreements, including CITCAs, with a provincial government that agrees to replace its PST (and the federal GST) with the HST levied under Part IX of the *Excise Tax Act*.

It is the vendor’s responsibility to:

- register for GST/HST
- collect and remit the applicable taxes to the federal government through the CRA

As a result, the federal government pays the GST/HST on its taxable purchases and charges the GST/HST on its taxable supplies. For more information, refer to the Federal government section of the CRA's *General Information for GST/HST Registrants* (RC4022).

The CRA is the administrator of the GST/HST in most provinces. Refer to the CRA's *General Information for GST/HST Registrants* (RC4022).

To view the GST/HST rates that apply in each province and territory in Canada, departments should consult the GST/HST provincial rates table available on the CRA's website.

4.1.2 When must GST/HST be charged or paid?

Taxable supply

GST/HST applies to taxable supply. Under the *Excise Tax Act*, most property and services that are provided by a supplier who is a GST/HST registrant or that are imported into Canada are subject to GST/HST, except for:

- exempt supplies (*Excise Tax Act*, Schedule V)
- zero-rated supplies (*Excise Tax Act*, Schedule VI)
- non-taxable importations (*Excise Tax Act*, Schedule VII)

Refer to the CRA's web page on which rate to charge for more information.

How to determine whether GST/HST applies

When determining whether GST/HST applies, the following steps should be taken:

- The tax status of each good or service supplied and the associated rationale should be kept on file and updated regularly for administrative and audit purposes.
- The place of supply, in other words, where the goods or services are from (in Canada or outside Canada or a participating province) must be known. For detailed information, refer to the following CRA publications:
- GST/HST and place of supply rules
- *Draft GST/HST Technical Information Bulletin B-103: Harmonized Sales Tax: Place of Supply Rules for Determining Whether a Supply is Made in a Province*
- 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).
- All federal departments are part of the same GST/HST registrant. As indicated in subsection A.2.2.2 of this guide, supplies provided by one federal government department to another are not taxable supplies for purposes of the *Excise Tax Act* and are therefore not subject to GST/HST.

Fees or charges set by regulations

When a fee or charge set by a regulation is considered a payment for a taxable supply, GST/HST must be added to the total amount. The amount added will depend on the place of supply. However, some fees and charges set by regulations are payment for supplies that may be exempt under the provisions of the *Excise Tax Act* (for example, Schedule V, Part VI of the *Excise Tax Act*), which means that no GST/HST is to be charged. Contact your departmental tax coordinator or legal counsel for more information.

4.1.3 When is GST due?

Tax is payable by the recipient of taxable supply on the day the consideration for the supply is paid or on the day the consideration for the supply becomes due, whichever is earlier. Pursuant to subsection 152(1) of the *Excise Tax Act*, consideration for a supply becomes due on the earliest of:

- the day that the supplier first issues an invoice
- the invoice date
- the date that the supplier would have issued an invoice except for an undue delay
- the due date indicated in a written agreement

There are special rules in the following:

- subsection 152(2) of the *Excise Tax Act* for property supplied by way of lease, licence or similar arrangement
- in subsection 152(3) of the *Excise Tax Act* where the consideration for a supply is not money

Tax is generally collectible by the supplier at the same time that it is payable by the recipient.

4.2 Overview of provincial sales taxes and fees

4.2.1 What is provincial sales tax (PST)?

PST is the retail sales tax (levied under a provincial sales tax statute or its equivalent) that is payable when a taxable good or service is purchased, acquired or brought into a province, unless an exemption applies.

Part VII of the *Federal-Provincial Fiscal Arrangements Act* confers authority on the Minister of Finance, on behalf of the federal government, to enter into reciprocal taxation agreements with any provincial or territorial government for the payment, collection and remittance of provincial sales taxes and provincial taxes and fees imposed or levied under a law of a province or territory. Refer to the *Summary of Reciprocal Taxation Agreements with Provinces and Territories*.

When the department purchases taxable supply

Generally, departments as purchasers of taxable goods and services are exempt from paying PST but are subject to provincial taxes and fees (see subsection 4.2.3 of this guide) imposed or levied under provincial or territorial laws if a given province or territory is a party to a reciprocal taxation agreement.

When the department sells taxable supply

A Cabinet decision of September 7, 1961, [1] established the requirement that departments, corporations, boards and commissions of the Government of Canada that are selling goods or services register with the provincial authorities in provinces levying PST and collect and remit this tax to the appropriate province. As a result, departments charge, collect and remit PST in accordance with the provisions of the reciprocal taxation agreements in effect between Canada and provinces and territories, where applicable.

Departments should consult the websites of provincial and territorial governments to view the applicable PST rates and details of specific reciprocal taxation agreements.

4.2.2 What is Quebec Sales Tax (QST)?

QST is a provincial sales tax in the province of Quebec. The QST is a value-added tax that is collected and remitted to Revenu Québec by QST registrants on the value of taxable goods and services made or deemed to be made available in Quebec.

When the department sells taxable supply

When a department is a vendor, it is required to collect and remit the QST in respect of the sale of property or services by the Government of Canada in accordance with Quebec provincial laws.

When the department purchases taxable supply

In the province of Quebec, as of April 1, 2013, a department that purchases taxable goods and services is required to pay the QST at the point of sale. The Receiver General for Canada will subsequently claim a rebate from Revenue Québec pursuant to the comprehensive integrated tax coordination agreement and the reciprocal taxation agreement between Canada and Quebec.

Interdepartmental transactions are not considered to be supplies and therefore are not subject to QST.

4.2.3 What is a provincial tax or fee (PTF)?

PTF is any tax or fee, other than the PST. The *Federal-Provincial Fiscal Arrangements Act* defines provincial tax or fee as follows:

a. “any tax of general application payable on a value, price or quantity basis by the purchaser, lessee, user or consumer of tangible personal property or services subject to the tax in respect of the sale, rental, consumption or use of the property or services, except to the extent that the tax is payable in respect of property or services acquired for resale, lease or sublease
b. any fee of general application payable by the owner, user or lessee of any vehicle or item of mobile equipment drawn, propelled or driven by any kind of power in respect of the registration of the vehicle or item or the licensing or certification

thereof or in respect of the transfer or renewal of any registration permit, licence or certificate issued for the use of the vehicle or item
c. any tax of a like nature to a tax described in paragraph (a) or any fee of a like nature to a fee described in paragraph (b) that is from time to time prescribed"

The PTF does not refer to fees under the *Service Fees Act*.

4.3 Overview of other taxes

4.3.1 What taxes apply on reserves and settlement lands of Indigenous governments?

There are two taxes that may be imposed by a band, or other governing body, of an Indigenous government on the lands that they govern:

- the First Nations tax (FNT) is equivalent to the GST and applies to supplies of fuel, alcohol and tobacco products (refer to the CRA's First Nations tax page)
- the First Nations Goods and Services Tax (FNGST), which is applied on the consumption of goods and services on reserves and settlement lands of Indigenous governments, replaces the GST or the federal part of the HST that is fully harmonized with the GST (refer to the CRA's First Nations Goods and Services Tax Administration Agreements page)

This guide applies to the taxes that are levied by Indigenous governments under the following statutes:

- the provisions of the Budget Implementation Act, 2000, Part 4: First Nations' Sales Tax
- An Act Respecting First Nations Goods and Services Tax

Contact the CRA for answers to questions about whether the FNT or FNGST applies to a particular transaction.

5. References

Legislation

- *An Act Respecting First Nations Goods and Services Tax*
- *An Act Respecting the Québec Sales Tax*
- *Excise Tax Act*
- *Federal Real Property and Federal Immovables Act*
- *Federal-Provincial Fiscal Arrangements Act*
- *GST Federal Government Departments Remission Order*
- *Regulation Respecting the Taxation Act*, section 1015R18
- *Service Fees Act*

Related policy instruments

- *Contracting Policy*
- *Directive on Charging and Special Financial Authorities*
- *Directive on Payments*
- *Directive on Public Money and Receivables*
- *Guidelines on Contractual Arrangements*
- *Policy on Financial Management*

Other relevant documents and web pages

- Canada Revenue Agency
    - Application or Revocation of the Authorization to File Separate GST/HST Returns and Rebate Applications for Branches or Divisions (form GST 10)
    - Calculate input tax Credits: Overview
    - Charge and collect the tax: Receipts and invoices
    - Charge and collect the tax: Which rate to charge
    - Confirming a GST/HST account number
    - Definitions for GST/HST
    - First Nations Goods and Services Tax
    - First Nations tax
    - *General Information for GST/HST Registrants* (RC4022)
    - *Goods and Services Tax Treatment of Grants and Subsidies*, GST/HST Technical Information Bulletin B-067
    - GST/HST and place of supply rules
    - *GST/HST Memoranda Series*, "Allowances," memorandum 9.3
    - *GST/HST Memoranda Series*, "Branches and Divisions," memorandum 2.4
    - *GST/HST Memoranda Series*, "Real Property," chapter 19
    - *GST/HST Memoranda Series*, "Reimbursements," memorandum 9.4
    - *GST/HST Memoranda Series*, "Required Registration," memorandum 2.1
    - GST/HST Netfile
    - GST/HST provincial rates table
    - GST/HST related forms and publications, in particular form GST 34-2 (Goods and Services Tax/Harmonized Sales Tax Return for Registrants)
    - *Harmonized Sales Tax: Place Of Supply Rules for Determining Whether a Supply is Made in a Province*, Draft GST/HST Technical Information Bulletin B-103
    - *Input Tax Credit Entitlement for Tax on Imported Goods*, GST/HST Policy Statement P-125R
    - Open or manage an account: Register
- Department of Finance Canada
    - First Nations Goods and Services Tax Administration Agreements
    - First Nations Sales Tax Administration Agreements
- National Joint Council
    - *Travel Directive*
- Receiver General
    - Government-Wide Chart of Accounts for Canada
    - *Receiver General Manual*, in particular, Accounting entries (formerly Chapter 10)

    - *Receiver General Manual*, in particular, Appendix 9, Year-end timetable and procedures
- Treasury Board of Canada Secretariat
    - Contracting Policy Notice 2013-1: Changes to Harmonized and Provincial Sales Taxes
    - *Financial Information Strategy Accounting Manual*
    - *Summary of Reciprocal Taxation Agreements with Provinces and Territories*

6. Enquiries

6.1 Enquiries about this guide

Members of the public may contact Treasury Board of Canada Secretariat Public Enquiries if they have questions about this guide.

Individuals from departments should contact their departmental financial policy group if they have questions about this guide.

Individuals from the departmental financial policy group may contact Financial Management Enquiries for interpretation of this guide.

6.2 Technical enquiries about the collection and payment of federal and provincial sales taxes and fees

For technical information about the collection and payment of federal and provincial sales taxes and fees, contact your departmental tax coordinator. The departmental tax coordinator may contact the following individuals for detailed guidance on the following specific topics:

- **reciprocal taxation agreements:** contact the Department of Finance Canada
- **provincial or territorial tax legislation:** see the *Summary of Reciprocal Taxation Agreements with the Provinces and Territories* for contact information at the provincial or territorial tax office
- **GST/HST, First Nations tax, First Nations Goods and Services Tax** (including interpretations of the *Excise Tax Act*): contact the appropriate tax services office or tax centre listed on the CRA's website.
- **QST:** contact Revenu Québec
- **QST rebate, the rebate process and recording of the QST:** contact the Receiver General at Public Services and Procurement Canada

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Appendix A: charging and collecting taxes when the department is selling taxable supply

A.1 Introduction

The purpose of this appendix is to provide guidance to departmental CFOs and managers on their responsibilities on the payment of taxes under the *Directive on Public Money and Receivables*, including crediting refunds of Goods and Services Tax (GST), Harmonized Sales Tax (HST) or Quebec Sales Tax

(QST) to the applicable refundable advance accounts of the current fiscal year (see subsection A.2.6 of this guide).

A.2 GST/HST

This section will help departments ensure that GST/HST is charged, collected and remitted on taxable supplies when applicable.

A.2.1 Guiding principles for applying GST/HST when the department is a vendor

The following are guiding principles for departmental managers who manage an activity that includes the sale of taxable property and services:

- Charge, collect and remit the GST/HST on the provision of taxable supplies
- Ensure that taxes that are imposed by Indigenous governments and that replace the GST are collected and remitted when selling property or services on the lands where these taxes apply (see subsection 4.3.1 of this guide)
- Ensure that the GST/HST is not charged on interdepartmental transactions (see subsection A.2.2.2 of this guide)
- Recognize and record collected and collectible GST/HST in a liability account on an accrual basis (see subsection A.2.6 of this guide)

A.2.2 Register with the CRA to obtain a business number

A.2.2.1 Legal obligation to register for GST/HST with the CRA

According to section 240 of the *Excise Tax Act*, every person (including departments) engaged in a commercial activity in Canada is required to register for the GST/HST, with a few exceptions, such as small suppliers (refer to the CRA's *GST/HST Memoranda Series*, "Required Registration," memorandum 2.1).

A.2.2.2 Federal government business number

The CRA considers the federal government to be a single entity that includes all its departments, branches, agencies and some corporations. However, federal Crown corporations are separate legal entities and are registered separately for GST/HST purposes. More information can be found in the Federal government section of the CRA's *General Information for GST/HST Registrants* (RC4022).

The federal government is a GST/HST registrant with the CRA as one entity under business number 121491807RT0001. A department that provides taxable supplies is to register with the CRA as a reporting entity and request its own GST/HST account, which will contain:

- the federal government entity's business number (121491807)
- a unique four-digit RT extension (a program identifier used by the CRA to represent the GST/HST account)

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 (for example, RT0002, RT0003). The RT extension is the entity's own account number for GST/HST reporting purposes.

Multiple reporting entities

A reporting entity is a department, or part of a department (for example, a department that has several regional branches), that files a separate GST/HST return with the CRA. A department may have more than one reporting entity.

The deputy head or a formally designated official of the department may request a GST/HST registration (separate RT extension number) of more than one reporting entity for the department provided that the reporting entity:

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

Refer to the CRA's *GST/HST Memoranda Series*, "Branches and Divisions," memorandum 2.4.

Interdepartmental transactions

Because the federal government is registered for GST/HST purposes as a single registrant, interdepartmental transactions are not considered to be supplies and departments do not pay or collect GST/HST on transactions with branches within the department and with other departments, agencies and some corporations. For more information on the special rules that apply to supplies of real property, refer to the CRA's *GST/HST Memoranda Series*, "Real Property," chapter 19.

A.2.2.3 Process for registering a GST/HST reporting entity with the CRA

Table 1 outlines the steps required to register separate GST/HST reporting entities for a department or the organizational units within a department with the CRA. Table 1 also explains the responsibility of the department to review and assess whether the separate reporting entity is still required.

Table 1: processes for requesting and removing GST/HST registration with the CRA

Action	Details
1. Request	The department registers a reporting entity with the CRA for GST/HST by

registration	using Application or Revocation of the Authorization to File Separate GST/HST Returns and Rebate Applications for Branches or Divisions (form GST 10): • The deputy head or a formally designated official is to sign the form and include a cover letter requesting that the CRA send a notification when the application has been processed. • The completed form should be sent to the appropriate tax services office or tax centre listed on the CRA's website.
2. Obtain approval for registration	Once the reporting entity's application has been approved, it remains in effect until it is revoked in writing by the department.
3. Registration is no longer required	Departments should regularly review their requirement to maintain multiple reporting entities. When a reporting entity is no longer required (for example, the entity no longer provides taxable supplies or ceases to exist, or other elements noted in subsection A.2.2.2 do not apply), the department should request that the reporting entity's status be revoked by using Application or Revocation of the Authorization to File Separate GST/HST Returns and Rebate Applications for Branches or Divisions (form GST 10).

A.2.3 Invoices

A.2.3.1 Invoice and receipt format requirements

Invoice format requirements

In general, invoice requirements under GST/HST registration follow normal business practices, with the addition of information specific to the GST/HST charged and the business number.

Provide the business number

The Government of Canada's business number (as found in subsection A.2.2.2 of this guide), including the unique GST/HST account identifier extensions that are issued to departments as separate reporting entities, must be shown on invoices for property and services supplied by the department (including receipts for cash sales when no invoice is issued).

Presentation of the GST/HST

The GST/HST can be either:

- included in the invoiced amount of the supply; or
- shown as a separate line item

Departments are encouraged to show the GST/HST on a separate line in order to facilitate the calculation of price adjustments and the purchaser's claim for input tax credits, and to accommodate GST/HST rate changes.

Refer to the CRA's *General Information for GST/HST Registrants* (RC4022) for more information on what information to include on receipts or invoices.

A.2.3.2 Interest on invoices when the department sells taxable supply

When dealing with interest when the department sells taxable supply:

- the department can charge interest on late payments from its clients.
- 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.

A.2.4 Purchaser's failure to pay GST/HST

Cash sales

If a purchaser refuses to pay the GST/HST on a cash sale, then the property or services should not be provided.

Credit sales

If a purchaser refuses to pay the GST/HST on a credit sale (after the purchaser receives the taxable supply from the department), the GST/HST should be set up as an account receivable and the department should undertake its normal debt collection actions. The department still remits the GST/HST due to the CRA whether or not the purchaser has paid it, because tax is due on amounts paid or payable at the time of the reporting.

There are certain people and entities that may not always have to pay the GST/HST to a supplier (such as Indigenous people, governments and diplomats). For more information, refer to the CRA's Charge and collect the tax: Which rate to charge web page.

A.2.5 Monthly filing of GST/HST collected or collectible on taxable supplies with the CRA

Filing the monthly return to the CRA

As required by subsection 239(1) of the *Excise Tax Act*, departments that provide taxable supplies are responsible for electronically submitting monthly returns of GST/HST collected and collectible to the CRA for each reporting entity they administer. Monthly returns are to be filed using form GST34-2 "Goods and Services Tax/Harmonized Sales Tax Return for Registrants," which can be accessed on the CRA's GST/HST related forms and publications page.

The 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 an accrual basis. For months in which there are no GST/HST or no adjustment to amounts recorded, a nil return is to be completed and filed with the CRA.

Departments can refer to:

- the CRA's GST/HST Netfile web page for further instructions on how to file the returns electronically
- the CRA's *General Information for GST/HST Registrants* (RC4022) for more information on how to complete the return or how to make changes to the GST/HST account (for example, change an address or telephone number)

Interdepartmental settlement to the CRA

The GST/HST due to the CRA is transferred to it by interdepartmental settlement in the same period the return is filed. Departmental managers who are responsible for month-end and year-end accounting are to transfer (at month-end and year-end) the amount on the financial reporting account 21134 GST-HST to the CRA by interdepartmental settlements.

A.2.6 Accounting entries for the provision of taxable supplies

Accounting entries when provide taxable supplies

All GST/HST charged by departments to their clients is to be recorded on an accrual basis in the GST/HST liability account until the amounts are transferred to the CRA. See the Government-Wide Chart of Accounts for Canada.

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.

Accounting entries for the monthly filing with the CRA

In the month that the sale is to be reported on the CRA return (for example, sales that occurred for the previous month), the GST/HST payable is to be transferred by interdepartmental settlement to the CRA in that same month. See subsection A.2.5 of this guide for more information on the monthly filing of GST/HST collected or collectible on taxable supplies with the CRA.

Accounting entries at year-end

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:

- refer to the *Financial Information Strategy Accounting Manual*
- refer to Appendix 9 of the *Year-End Timetable and Procedures 2018 to 2019* for sample journal entries

A.2.7 Audit trail and supporting documentation

Records are to be maintained on the taxes of the products and services that departments provide, including any exemptions. An audit trail and supporting documentation should also be maintained for receivables, including sales invoices and cash receipts. These records are to be retained for a period of 6 years after the end of the year to which they relate.

Refer to Receiver General Notice 2013-001 for additional information.

A.3 Provincial sales taxes (PST) and provincial taxes or fees (PTF)

This section will help departments ensure that PST and PTF are charged, collected and remitted on taxable supplies when applicable.

A.3.1 Guiding principles for the registration for and the collection and remittance of PST and PTF when the department is a vendor

The following are guiding principles for departmental managers who have been assigned responsibility for managing an activity that includes the sale or supply of taxable goods or services:

- Register as a vendor with the provincial or territorial authorities in those provinces or territories that impose or levy PST and/or PTF under a law of a province or territory
- Charge and collect PST and/or PTF, when applicable, on the sale or supply of taxable goods and services, except when the purchaser is exempted from paying the PST or PTF by legislation or is the holder of an exemption certificate
- File returns and remit PST and/or PTF, when applicable, based on the provincial or territorial requirements
- Pay interest assessed by the province or territory as a result of late remittance or tax adjustments

A.3.2 Collection and remittance of PST

A.3.2.1 Introduction

This section explains the responsibilities of departmental managers who oversee activities that include selling the taxable goods or services in a province that has a PST.

A.3.2.2 Tax rate in province of delivery

The tax rate that is applied on the sale of taxable goods and services is determined by the province where the goods or services are to be delivered.

The following province and territories do **not** have a PST:

- Alberta
- Yukon
- Northwest Territories
- Nunavut

Departments should consult the provincial and territorial governments' websites to view the applicable PST rates.

A.3.2.3 Registration as a vendor with the province

Departments selling or supplying taxable goods and services to external parties (such as employees, Crown corporations or the public) that will be delivered in British Columbia, Manitoba, Quebec and Saskatchewan are considered to be vendors by provincial legislation. As such, they are required to apply for a vendor registration certificate from the appropriate provincial authority.

The department is required to contact the designated provincial representatives and provide information on the nature of the sale or supply of goods and services, including potential clients and the estimated dollar volume of transactions. The province will determine whether the department is required to register as a vendor. If registration is necessary, the province will:

- issue a vendor registration certificate
- provide applicable instructions, including tax information and due dates for provincial tax returns

A.3.2.4 Calculation of PST on invoices

When applicable, the PST and the GST/HST are calculated independently and must be shown separately on an invoice. The PST rate is set by each province as described in subsection 4.2.1 of this guide. For details on the method of calculating PST in a specific province, consult the provincial websites listed in the *Summary of Reciprocal Taxation Agreements with the Provinces and Territories*.

The HST rate is applied directly to the selling price of the taxable good or service in provinces where HST is applicable.

A.3.2.5 Accounting for PST charged, collected and remitted

Departments that sell or supply taxable goods and services are required to establish a PST liability account in their general ledger that complies with Receiver General requirements (refer to the *Receiver General Manual*).

When taxable goods and services are provided to external parties, the PST is recorded in a liability account at the time the invoice is issued. The entire amount of the sale (including the related PST) is recorded as an account receivable.

When the invoiced payment is received, it is deposited in the Consolidated Revenue Fund and credited to the accounts receivable sub-ledger account.

PST is remitted based on the amounts accrued in the PST liability account at the end of the reporting period. When the tax is remitted to the appropriate province, a debit entry to the PST liability account is made.

A.3.2.6 Commissions for collecting and remitting PST

Most provinces (British Columbia, Manitoba and Saskatchewan, for example) offer vendors a commission as a form of compensation for collecting and remitting PST.

When commissions are claimed, the commission is subtracted from the remittance made to the province. The amount of the commission is debited from the PST liability account and credited as “Other Revenue - Proceeds From Sales - Other.” When parliamentary authority for vote netted revenues has been established, the commission may be credited to the same account provided that the appropriate authority code representing re-spendable revenue is used.

A.3.2.7 Provincial audit of departments

A.3.2.7.1 Records, access and timing

Proper records on goods and services sold or supplied and on PST collected, remitted and owing must be kept to allow for verification by all provinces that have a reciprocal taxation agreement in effect. These records may include sales invoices, sales journals, cash register tapes, general ledgers, daily sales reports, and records of goods acquired for sale.

During a provincial audit, departments are to provide provincial officials with access to their records and upon request are required to explain the procedures for their sale or supply activities.

Provincial audits take place periodically (when considered necessary by the provinces).

A.3.2.7.2 Non-compliance with PST legislation

When a provincial audit indicates that a department has not complied with a provision of the provincial tax legislation, the provincial authority may recommend changes to correct departmental procedures in the areas of non-compliance.

A.3.2.7.3 Required tax adjustments

When a provincial audit determines that a department has failed to collect and remit the tax, or has collected and not remitted the tax, the province may request payment of a PST adjustment for the amount of tax that should have been charged and/or remitted, including interest where applicable. However, under the terms of the reciprocal taxation agreements, the department is not subject to penalties.

In either of these cases, the province will send the federal department (the vendor) a “Request for Payment of Tax Adjustments.” The department is required to review the documentation provided by the province supporting the tax adjustment, and if it is in agreement, pay the required amount to the province within 90 days of receipt of the request. In cases where there is disagreement with the tax adjustment, see section A.3.2.7.4 of this guide for information on dispute resolution.

Tax adjustments for situations where the department has failed to charge and remit the PST are paid from departmental appropriations and are charged to the economic object 3259 “Miscellaneous Expenditures not Elsewhere Classified” (see the Government-Wide Chart of Accounts for Canada). Tax adjustments for situations where the department has collected the PST and has not remitted it are charged to the PST liability account where the tax receipt is held.

A.3.2.7.4 Dispute resolution

When a department disagrees with the determinations made by a provincial audit and with the resulting tax adjustment, the matter is referred to the Treasury Board of Canada Secretariat. Officials from the Secretariat, the Department of Finance Canada and the province concerned will discuss the matter in order to resolve the disagreement.

If the dispute cannot be settled at this level, the matter may be referred for decision to a board established in accordance with the terms of the applicable reciprocal taxation agreement.

Appendix B: Paying taxes when the department is purchasing taxable supply

B.1 Introduction

The purpose of this appendix is to provide guidance to departmental Chief Financial Officers (CFOs) and managers on their responsibilities for the payment of taxes under the *Directive on Payments*. These responsibilities are as follows:

- establishing risk-based controls and oversight procedures to ensure that provincial taxes or fees, the Goods and Services Tax (GST) and the Harmonized Sales Tax (HST) are properly recorded and managed
- complying with the provisions in the comprehensive integrated tax coordination agreements and reciprocal taxation agreements when transacting within provinces and territories (see sections B.3 and B.4 of this guide)
- establishing a GST Refundable Advance Account (GST RAA) to record GST and HST paid or payable on purchases (see subsection B.2.4 of this guide)
- ensuring that provincial taxes or fees, the GST and the HST are properly recorded and managed by:
    - complying with the provisions in the *Excise Tax Act* and paying the GST/HST when acquiring or importing taxable property or services
    - charging the payment of any provincial taxes or fees to a departmental appropriation (see subsection B.3.2 of this guide)

B.2 GST/HST

This section will help departments to ensure that GST/HST is paid on purchases when applicable.

B.2.1 Guiding principles for managing GST/HST on departmental purchases

The following are guiding principles for departmental managers who have been assigned responsibility for managing an activity that includes the procurement of taxable property and services:

- Comply with the GST/HST provisions in the *Excise Tax Act* and pay the GST/HST when acquiring or importing taxable property or services
- Ensure that taxes imposed by Indigenous governments that replace the GST are paid when acquiring property or services on the lands where the First Nations Goods and Services Tax and the First Nations Tax apply (see subsection 4.3.1 of this guide)
- Do not pay the GST/HST on interdepartmental transactions (see subsection A.2.2.2 of this guide)
- Record the GST/HST payable on purchases, including purchases made on behalf of other departments in the GST Refundable Advance Account (see subsection B.2.4 of this guide)

B.2.2 Suppliers

B.2.2.1 Registrant and non-registrant suppliers

Some suppliers may be GST/HST registrants and others may not. Table 2 explains the difference. Further explanations are provided in subsection B.5.2 on contracts and subsection B.5.5 on imported goods.

Table 2: explanation of tax implications when a supplier is a GST/HST registrant and when a supplier is not a registrant

Description	Supplier is a GST/HST registrant	Supplier is not a GST/HST registrant
Explanation	Suppliers that are GST/HST registrants are suppliers that: • sell or lease taxable supplies in Canada • are **not** a small supplier The supplier is generally eligible to claim an input tax credit for any	Non-registrants include: • non-residents • small suppliers • persons whose total revenues from taxable supplies and those of their associates do not exceed $30,000 per a year or $50,000 in the case of public service bodies (for example, a non-profit organization, charity, municipality, school authority, hospital authority, public college or university) However, 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.

	GST/HST paid on the expense. The GST/HST should be indicated separately on the invoice submitted to the department.	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 Confirming a GST/HST account number page on the CRA's website.
Tax implications	The department should pay the GST/HST and record the amount of GST/HST paid or payable to the supplier in the GST RAA.	Purchases from non-registrants are not subject to GST/HST and may be paid without GST/HST implications.

Refer to the instructions for registering for a GST/HST account on the Open or manage an account: Register page and the Definitions for GST/HST page on the CRA's website.

B.2.2.2 Disputes with suppliers on payments of the GST/HST or the QST

Suppliers that are GST/HST or QST registrants are liable for remitting the GST/HST to the CRA (as required under the *Excise Tax Act* or the QST to Revenue Québec under the *Act Respecting the Québec Sales Tax*) even when those taxes remain uncollected. If the relevant tax is not submitted, the supplier may also be liable for applicable penalties and interest.

Departments are not to engage in disputes with suppliers about the amount of tax on an invoice. The department should pay the amount of tax invoiced by the supplier and use the refundable advance account mechanism to account for the tax.

A department may seek a ruling from the CRA or Revenu Québec to determine whether it had to pay the GST/HST and QST on the invoice from the supplier.

B.2.3 Invoices

B.2.3.1 Invoices without GST/HST or with incorrect GST/HST

When departments receive invoices for taxable supplies that do not include GST/HST or that have incorrect GST/HST amounts, use Table 3 to determine the appropriate action to be taken. Departmental managers are encouraged to seek advice from their departmental tax coordinator if there is an issue with the GST/HST on the invoice.

Table 3: how to resolve issues with an invoice that does not include GST/HST or that has incorrect GST/HST amounts

Situation	Explanation	Action
The purchase is from a supplier that is not a GST/HST registrant.	Purchases from non-registrants are not subject to GST/HST and may be paid without GST/HST implications. See subsection B.2.2.1 of this guide for an explanation of the tax implications for suppliers that are not registered for GST/HST.	The invoice should be paid as presented. In other words, the invoice is correct; it should not include GST/HST.
There is a reason to believe that the supplier should be registered for GST/HST but isn’t.	For example, the value of the contract exceeds $30,000 or $50,000 for a public service body.	The department is to contact the supplier to seek an explanation. If the supplier does not provide a reasonable explanation for not charging the GST/HST: 1. the invoice should be paid as presented 2. the case should be referred to the appropriate tax services office or tax centre 3. the supplier should be informed of this referral
The invoice does not comply with the specified invoice format requirements (see subsection A.2.3.1 of this guide).	To be payable, an invoice must follow the proper format.	The department is to request an amended invoice from the supplier.

If non-compliance with the invoice format for GST/HST is the only problem, then the date of the original invoice should be used when determining the payment due date under the requirements of the *Directive on Payments* (see subsection 4.1.4 of this directive).

B.2.3.2 Discounts and interest on invoices when the department purchases taxable supply

The following are common GST/HST scenarios that departments encounter when dealing with discounts and interest when they purchases taxable supply:

- Because GST/HST is calculated on the net price of supplies, discounts for volume purchasing provided at the time the supplier issues an invoice are considered as price reductions. Therefore, GST/HST is applied to the price after such discounts are taken into account.
- Interest charges for late payment and discounts for early payment do not affect the amount of GST/HST that applies to the transaction.
- Interest can be charged on 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.

B.2.4 Charges to the GST refundable advance account

Departments are required to establish a GST Refundable Advance Account (GST RAA) as an asset financial reporting account to record the GST and the HST paid or payable on departmental purchases.

Only the following the 3 types of GST/HST payments that are relieved of tax pursuant to the *GST Federal Government Departments Remission Order* may be charged to a department's GST RAA:

1. GST/HST paid or payable on taxable supplies of property and services purchased by a department
2. GST/HST paid on reimbursable expenses incurred by public service employees and other individuals appointed as agents of Her Majesty (for example, commissioners and board members appointed by the Governor in Council) in the course of carrying out government business (for example, courses, transportation and supplies but not including payments made on acquisition cards, departmental travel expense cards). See subsection B.5.3.1 of this guide
3. GST/HST on allowances paid to employees (for example, meal allowances, daily incidentals and standard kilometric rates). See subsection B.5.4.1 of this guide

For general information on the federal government's remission process, refer to the *GST Federal Government Departments Remission Order*.

For more information on the accounting entries for the GST RAA, including year-end transactions, refer to subsection B.2.7 of this guide.

B.2.5 GST/HST paid in error

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

B.2.6 GST/HST on returned taxable supply

Return of taxable supply in the current fiscal year

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

Return of taxable supply from previous fiscal year after closing the fiscal year

For refunds of expenditures from the previous year 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.

B.2.7 Accounting entries for the purchase of taxable supply

Accounting entries when the department purchases taxable supply

Use the transaction described in Table 4 to record GST/HST when the department purchases taxable supply. Use economic object 8171 from the Government-Wide Chart of Accounts for Canada to record GST RAA on purchases.

Table 4: accounting entry for the purchase of taxable supply

Entry	Description
Debit	Record the GST/HST payable in the GST RAA at the same time the related supplies or services purchased are recorded as a debit in the accounting system.
Credit	Record the GST/HST as an accounts payable (included in the full amount of the invoice).

Accounting entries at year-end: The balance in the department’s GST RAA is to be cleared and transferred to the CRA on March 31. CRA will authorize the remission, as provided for under the *GST Federal Government Departments Remission Order*.

If GST/HST is recorded as a result of any prior-year payable established after the March 31 transfer to the CRA, it will be rolled over as the opening balance in the GST RAA.

Refer to Appendix 9 of the *Year-End Timetable and Procedures 2018 to 2019* for sample journal entries.

B.2.8 Audit trail and supporting documentation

To ensure that the GST /HST is properly recorded and managed, an audit trail and supporting documentation are to be maintained for payments, including receipts, invoices and expense claims, for all charges to the GST RAA or QST RAA. These records are to be retained for a period of 6 full years after the end of the year to which they relate.

B.3 Payment and recording of provincial sales taxes (PST) and provincial taxes and fees (PTF) when the department purchases taxable supply

This section will help departments ensure that they pay PST and PTF on their purchases when applicable.

B.3.1 Guiding principles for the exemption from paying PST (other than QST) when the department purchases taxable supply

The following are guiding principles for departmental managers who have been assigned responsibility for managing an activity that includes the procurement of taxable property and services in provinces that charge PST:

- Claim an exemption from paying PST on the purchase of taxable goods and services, including purchases made with Government of Canada acquisition cards. When necessary, departments are to provide proof of exemption status by using an exemption certificate or number as specified in the *Summary of Reciprocal Taxation Agreements with the Provinces and Territories*
- Claim applicable exemptions when contracting for motor vehicle fleet management services (for example, when a fleet card is supplied and managed by a service provider). The contract is to accurately reflect the federal government's tax status to ensure that applicable exemptions are automatically obtained when using the fleet card for government vehicle maintenance purchases
- Include a statement in all contract and purchase documents that reflects the department's exemption status from paying PST on purchases made directly on behalf of the department
- Ensure that there is no claim for an exemption when the HST or QST applies
- Ensure that no refund, rebate or remission is claimed from the respective provinces on any PST paid or PST reimbursed to employees
- Direct any request for a refund of PST paid in error to the merchant and not to the province when using an acquisition card or other forms of payment

B.3.2 Guiding principles for paying PTF when the department purchases taxable supply

The following are guiding principles for departmental managers who have been assigned responsibility for managing an activity that includes the procurement of taxable property and services in provinces that charge PTF:

- Approve the payment of PTF as required under provincial or territorial legislation and as defined in the reciprocal taxation agreements. The applicable legislation for each province and territory is listed in the *Summary of Reciprocal Taxation Agreements with the Provinces and Territories*
- Charge the payment of PTF to a departmental appropriation
- Ensure that when a purchase includes the supply of taxable goods and services to which both PST and PTF apply, only the exemption from the PST is claimed. PST exemption numbers or certificates do not exempt the department from paying PTF

- Approve payment of motor vehicle registration fees for the vehicles owned by a department

B.4 Payment, recording and rebate of QST on departmental purchases

This section will help departments to ensure that QST is paid on purchases when applicable.

B.4.1 Introduction

As of April 1, 2013, departments are required to pay the QST when they purchase taxable supplies made in Quebec and to subsequently claim a rebate through the Receiver General for Canada (see subsection B.4.3.3 of this guide). As is the case with the GST, a QST refundable advance account (a QST RAA) is used to record the QST paid or payable that is eligible for a government rebate from Revenu Québec.

B.4.2 Guiding principles for managing QST on departmental purchases

The following are guiding principles for departmental managers who have been assigned responsibility for managing an activity that includes the procurement of taxable property and services in the province of Quebec:

- Comply with the QST provisions in the comprehensive integrated taxation coordination agreement and the reciprocal taxation agreement and paying the QST when acquiring or importing taxable goods or services
- Do not pay the QST on interdepartmental transactions (see subsection A.2.2.2 of this guide)
- Record the QST paid or payable on purchases, including purchases made on behalf of other departments, in the QST Refundable Advance Account (QST RAA) (see subsection B.4.3.2 of this guide)

The following are the key responsibilities for departmental tax coordinator:

- providing the balance of the QST RAA to the Federal Rebate Administrator through the monthly trial balance submitted to the Central Financial Management Reporting System
- clearing the balance of the QST RAA when the Federal Rebate Administrator redistributes rebates in the specific amounts through interdepartmental settlements
- maintaining proper records to support periodic reviews or provincial or other audits. Information related to the QST rebate is to be retained for 6 years after the end of the year in which the rebate application was submitted
- responding to requests for additional information from Revenu Québec and the Federal Rebate Administrator

B.4.3 Recording of the QST

B.4.3.1 Accounting entries to record QST when the department purchases taxable supply

Use the transaction described in Table 5 to record QST when the department purchases taxable supply. Use economic object 8172 from the Government-Wide Chart of Accounts for Canada to record QST Refundable Advance Accounts (RAA) on purchases.

Table 5: accounting entry for the purchase of taxable supply

Entry	Description
Debit	Record the QST payable in the QST RAA at the same time the related supplies or services purchased are recorded as a debit in the departmental financial management system.
Credit	Record the QST as an accounts payable (included in the full amount of the invoice).

B.4.3.2 Charges to the QST refundable advance account

Departments are required to establish a QST RAA as an asset financial reporting account to record the QST paid or payable on purchases.

Only QST payments that are eligible for a government reimbursement from Revenu Québec are to be charged to a department's QST RAA. Generally, there are three classes of QST payments that may be charged to the QST RAA:

1. QST paid or payable on taxable supplies acquired by a department
2. QST deemed paid on expenses reimbursed to employees for expenses they personally incur while on government business (for example, course fees, transportation and supplies). This excludes any amounts paid by departmental acquisition cards, departmental travel expense cards and departmental travel expense accounts (see subsection B.5.3.2 of this guide)
3. QST deemed paid on allowances to employees who are on travel status for government business (for example, meal allowances, daily incidentals and standard kilometric rates) (see subsection B.5.4.2 of this guide)

B.4.3.3 Rebate of the QST

The Receiver General for Canada is the QST Federal Rebate Administrator responsible for the rebate process. Detailed instructions can be found in Receiver General Notice 2013-001. For answers to questions about the rebate, the rebate process and recording of the QST, contact the Receiver General by telephone 1-800-593-1666 or email rgsacc.rgacas@tpsgc-pwgsc.gc.ca.

B.5 Application of taxes to specific types of purchases

B.5.1 Transfer payments

Determining whether there is consideration for a supply

The CRA's *Goods and Services Tax Treatment of Grants and Subsidies*, GST/HST Technical Information Bulletin B-067, provides the following guidance on whether a transfer payment (see definition in the *Directive on Transfer Payments)* is deemed consideration for a supply for the purposes of the *Excise Tax Act*:

- In general, transfer payments made in the public interest or for charitable purposes are not regarded as consideration for a supply and are not subject GST/HST and QST
- However, if there is a direct link between a transfer payment received by a person and a supply provided by that person, either to the grantor of the transfer payment or to third parties, the transfer payment will be regarded as consideration for a supply. If a transfer payment is consideration for a supply, then it must be determined whether or not the supply is taxable
- If it is established that a supply takes place in return for a transfer payment, the payment may be regarded by the department as consideration for a supply. The amount of the transfer payment must then be used to calculate the tax payable. The person who receives the payment, if registered for the GST, must collect the tax payable from the grantor of the transfer payment

As a result, if a supply is made to the department in return for a transfer payment, then there is a direct link between the transfer payment and a supply and the transfer payment is consideration for the supply. If the supply is taxable, GST/HST and QST must be charged and collected by the recipient (if they are registered for GST/HST) and is payable by the department, on the value of the transfer payment. In such circumstances, the GST/HST and QST paid or payable by the department may be charged to the respective GST and QST refundable advance accounts. The refundable advance account is an asset financial account in which amounts paid or payable for the GST/HST and QST on purchases from external entities are recorded. See subsections B.2.4 and B.4.3.2 of this guide.

When in doubt as to whether GST/HST or QST applies to a specific transfer payment, departments are to request a GST/HST ruling from the CRA or a QST ruling from Revenu Québec. While awaiting a ruling, the department is to pay any amount of tax invoiced by the recipient.

Eligible project costs

When a department provides funding through a transfer payment agreement to a recipient to undertake a project, the transfer payment agreement may provide that the funding can be used to reimburse all or part of the costs incurred by the recipient in carrying out the project ("eligible project costs"). The GST/HST or QST paid by the recipient on its inputs into such a project may be considered to be part of the eligible project costs except for those amounts that are eligible for an input tax credit or a GST/HST rebate for the GST/HST and an input tax refund or a QST rebate for the QST, as follows:

- the portion of GST/HST cost that is not eligible for reimbursement (for an input tax credit or a GST/HST rebate for the GST/HST and an input tax refund or a QST rebate for the QST) may be considered as part of the eligible project costs

- this portion of GST/HST or QST reimbursed to the recipient must be charged to the department's appropriation (instead of the refundable advance accounts for GST and QST)

B.5.2 Procurement contracts and contractual arrangements

Application of GST/HST to procurement contracts

Procurement contracts for goods, services and construction services, including the acquisition of real property, as defined by the *Contracting Policy*, are always subject to applicable taxes. The payment of taxable supplies excludes any input tax credit or GST/HST rebate that the contractor may be eligible for under the *Excise Tax Act*. For additional information, refer to the *Contracting Policy* and the Contracting Policy Notice 2013-1: Changes to Harmonized and Provincial Sales Taxes.

Application of GST/HST to contractual arrangements

Contractual arrangements can be subject to applicable taxes, similar to the tax application of procurement contracts. Refer to the *Guidelines on Contractual Arrangements*.

When the supplier is a GST/HST registrant

When a supplier is registered for GST/HST and provides a taxable supply to a department, the supplier is generally eligible to claim an input tax credit for any GST/HST paid on the expense. The taxes should be indicated separately on the invoice submitted to the department. The department then records the amount of GST/HST paid or payable to the supplier in the GST RAA.

When the supplier is not a GST/HST registrant

When the supplier is not registered for GST/HST and provides a taxable supply to a department, the supplier is not eligible to claim the input tax credit under the *Excise Tax Act*. As a result, the department should not be charged GST/HST for the supply of goods or services. If the supplier separately lists its GST/HST costs on its invoice to the department, this GST/HST amount is a cost to the department and is not tax payable by the department. This amount should therefore be charged against the appropriation and not against the GST RAA.

When a supplier incurs an expense as an agent on behalf of the department

When a supplier incurs an expense as an agent on behalf of a department and provides a taxable supply to a department, the supplier is not eligible to claim an input tax credit or a rebate under the *Excise Tax Act* for the GST/HST paid on the department's expense, even if the supplier is a GST/HST registrant. In these cases, the department reimburses the supplier for the total of the expense (including the GST/HST) and records the amount of GST/HST paid or playable to the supplier in the GST RAA.

Application of QST to procurement contracts

The applicability of the QST to a contract is the responsibility of the supplier, in accordance with Revenu Québec’s place of supply rules. When a contract is subject to QST, departments are responsible for paying the QST and charging the QST to the QST RAA. If they have questions as to the applicability of the QST to a given contract, contracting authorities in departments are encouraged to consult with their departmental tax coordinator, legal counsel and Revenu Québec.

B.5.3 Expenses reimbursed to employees

A reimbursement is a payment made by an employer to cover costs (for example, courses, transportation and office supplies) that an employee incurred for the purpose of government business. The amount of the reimbursement should be supported by documentation (for example, the employee should provide receipts or acceptable documentation to the employer). Reimbursements to employees do not include amounts paid on an account for which the department is solely liable (for example, departmental acquisition cards and departmental travel expense cards). Departments are to record and report both the GST/HST and QST on reimbursements paid to employees for expenses they incur while on government business.

B.5.3.1 How to calculate the amount to charge to the GST RAA for expenses reimbursed to employees

Application of GST/HST when reimburse expenses to employees

As described in subsection B.2.4 of this guide, the GST RAA may be charged for the GST/HST included on expenses reimbursed to employees. When a claim includes expenses incurred both in and outside Canada, the GST/HST to be charged to the GST RAA is to be calculated only on expenses incurred in Canada.

Calculation methods

There are two ways to calculate the amount of GST/HST chargeable to the GST RAA on reimbursable expenses (refer to the Calculate input tax credits: Overview page on the CRA website). These methods recognize that the total expense may include gratuities, PST and other amounts not subject to the GST/HST.

Deciding which calculation method to use

Departments can choose to apply either of the following methods when calculating the reimbursable expenses to employees. However, for each type of reimbursable expense (for example, relocation, membership, course fees, hotel expenses and tolls), departments are to identify and document the method chosen and the reason for the choice, and the method **must be used consistently** throughout the entire department for the fiscal year. Any change to the calculation method can be implemented only at the beginning of the fiscal year and is to be documented, along with the reasons for the change.

For more information, see the CRA’s *GST/HST Memoranda Series*, “Reimbursements,” memorandum 9.4.

Method 1: Calculate the reimbursement multiplied by a factor (percentage)

Method 1 involves multiplying the total expense by the percentages shown in Table 6. These percentages depend on the location of where the expense was incurred. Method 1 is only for expenses incurred in Canada.

Table 6: percentages to use in calculating input tax credits for expenses reimbursed to employees

Location	New Brunswick, Newfoundland and Labrador, Nova Scotia and Prince Edward Island	Ontario	Alberta, British Columbia, Manitoba, Northwest Territories, Nunavut, Saskatchewan and Yukon	Quebec
Province where the expense was incurred	12.28%	10.71%	3.85%	3.85%

Notes

- The percentages presented in Table 6 are calculated using the formulas found in the CRA's Methods to Calculate Input Tax Credits, which is based on the GST/HST provincial rates table (as of October 1, 2016), also published by the CRA
- Departments should consult the applicable provincial authorities to make sure that they are using the most recent rates. Consult the provincial websites that are listed in the *Summary of Reciprocal Taxation Agreements with the Provinces and Territories*
- This method is automatically used by the Government of Canada's Shared Travel Services system
- For expenses incurred in the province of Quebec, also calculate the QST (see subsection B.5.3.2 of this guide)

Method 2: Determine the actual GST or HST incurred on reimbursed expenses

Method 2 involves using the actual amount of GST/HST on each expense reimbursed to the employee through one of the following:

- identifying the tax on each invoice or receipt
- calculating the GST/HST amounts where GST/HST is embedded in a tax-included price on invoice

B.5.3.2 How to calculate the amount to charge to the QST RAA for expenses reimbursed to employees

For transactions made in Quebec, both the GST and QST rates must be considered and recorded in the appropriate refundable advances accounts (GST RAA and QST RAA).

As described in subsection B.4.3.2 of this guide, the QST RAA would be charged for QST on expenses reimbursed to employees. Because QST is not applicable outside the province, when a claim includes expenses incurred both within and outside the province, the QST to be charged to the QST RAA is to be calculated on the Quebec purchases only.

There are two ways to calculate the amount of QST on the reimbursement:

- **Method 1:** calculate 9/109ths (or 8.26%) of the total amount of reimbursable expenses when 90% or more of these expenses are subject to QST
- **Method 2:** use the actual amount of QST incurred on all expenses

Departments may charge this amount to the QST RAA when both of the following conditions are met (as required by Revenu Québec):

- the reimbursement is made to an employee
- the employee acquired, consumed or used taxable property or services in the course of conducting government business

B.5.4 Allowances paid to employees

An allowance is any periodic or other payment that an employee receives from an employer without having to account for how it was spent. The allowance is normally paid to employees who were on travel status for government business and could include items such as meal allowances, allowances for daily incidentals and pre-established kilometric rates as set out under the National Joint Council Travel Directive. Departments are to record and report both the GST/HST and QST on allowances paid to employees for expenses they incur while on government business.

For more information, the CRA's *GST/HST Memoranda Series*, "Allowances," memorandum 9.3.

B.5.4.1 How to calculate the amount to charge to the GST RAA for allowances paid to employees

Application of GST/HST when providing an allowance to employees

As described in subsection B.2.4 of this guide, the GST RAA may be charged for the GST/HST on allowances paid to employees to cover employee costs that are incurred in Canada and that are originally subject to tax.

Calculation method

To calculate the amount of GST/HST on allowances, departments are to apply the appropriate rate (as shown in Table 7) to the total allowance paid for expenses incurred in the specific province or territory.

Table 7: percentages to use in calculating input tax credits for allowances paid to employees

Location	New Brunswick, Newfoundland and	Ontario	Alberta, British Columbia, Manitoba,	Quebec

	Labrador, Nova Scotia and Prince Edward Island		Northwest Territories, Nunavut, Saskatchewan and Yukon	
Province where the expense was incurred	13.40%	11.50%	4.76%	4.76%

Notes

- The percentages presented in Table 7 are calculated using the formulas found in the CRA's Methods to Calculate Input Tax Credits, which is based on the GST/HST provincial rates table (as of October 1, 2016), also published by the CRA
- Departments should consult the applicable provincial authorities to make sure that they are using the most recent rates. Consult the provincial websites that are listed in the *Summary of Reciprocal Taxation Agreements with the Provinces and Territories*
- For expenses incurred the province of Quebec, also calculate the QST (see subsection B.5.4.2 of this guide)

B.5.4.2 How to calculate the amount to charge to the QST RAA for allowances paid to employees

For transactions made in Quebec, both the GST and QST rates must be considered and recorded in the appropriate refundable advances accounts (GST RAA and QST RAA).

As described in subsection B.4.3.2 of this guide, the QST RAA may be charged for QST on allowances paid to employees to cover taxable expenses that employees incur in Quebec.

Calculation method

To calculate the QST on allowances, departments are to apply a rate of 9.975/109.975ths (or 9.07%) to the total amount of allowances paid to employees. Departments may charge this amount to the QST RAA when all the following conditions are met (as required by Revenu Québec):

- The allowance is paid to an employee of the department
- The allowance is paid either for acquiring goods or services at least 90% of which are taxable, or for the use of a motor vehicle where the kilometric rate allowance is paid
- The goods (for example, products or meals) or services are acquired or the supply takes place in Quebec, including the use of motor vehicles
- The goods (for example, products) or services are acquired for the use of the department in conducting government business

B.5.5 Imported taxable supply

B.5.5.1 GST/HST implications on imported taxable supply

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

A foreign supplier (a non-resident supplier of property or services) may voluntarily register or be required to register for GST/HST.

When the foreign supplier is a GST/HST registrant

If the foreign supplier imports taxable goods to supply a department and is a GST/HST registrant, then the department pays GST/HST as long as the invoice meets the format requirements for invoices (see subsection A.2.3.1 of this guide or the Charge and collect the tax: Receipts and invoices page on the CRA's website. The GST/HST is charged to the GST RAA as described in subsection B.2.4 of this guide. If the department has concerns about the supplier charging GST/HST, the department can contact the CRA to confirm the foreign supplier's registration (see subsection B.2.2.1 of this guide).

When the foreign supplier is not a GST/HST registrant

If the foreign supplier imports taxable goods to supply a department and is not a GST/HST registrant, then the foreign supplier is not entitled to claim an input tax credit. The foreign supplier will include an amount to cover the GST/HST in the price of the goods or as a reimbursable amount. Departments are to pay the total price charged, and the GST/HST included in the price would represent a cost reimbursement that is chargeable to the department's appropriation and not to the GST RAA.

When a foreign supplier imports goods to produce taxable supply

Generally, a foreign supplier that is a GST/HST registrant and that imports taxable goods to supply to a department in Canada is entitled to claim an input tax credit for the GST/HST paid or payable on taxable goods used, consumed or supplied in the course of making that supply (for example, a raw material is used in a commercial manufacturing process). Therefore, departments are not to reimburse GST/HST paid by these registrants because they are entitled to recover the GST/HST paid or payable through the input tax credit claim.

Refer to the CRA's *Input Tax Credit Entitlement for Tax on Imported Goods*, GST/HST Policy Statement P-125R.

When importing taxable goods into Canada

Departments that import taxable goods acquired outside Canada are to pay the applicable GST/HST. The GST/HST is paid to the Canada Border Services Agency through an interdepartmental settlement. The department may charge the GST/HST to the GST RAA.

The following explains the implications for provinces that have adopted HST and those that are still using GST:

- **provinces that use HST:** Importations of taxable goods that are accounted for as commercial goods are subject to only the federal portion of the HST
- **provinces where PST and GST are paid separately:** Importations of taxable goods that are accounted for as commercial goods are subject to only the GST

The federal portion of the HST and the GST are the same amount.

Responsibilities of customs brokers

A customs broker who imports taxable goods as a department's agent may pay the GST/HST on the department's behalf. The amount the customs broker pays 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 is charged to the GST RAA.

B.5.5.2 QST implications on imported taxable supply

When a department purchases a taxable supply from outside Canada or from another province or territory into Quebec and where the supplier is not required to collect and remit the QST, the department does not pay QST on these importations.

B.5.6 Specified purpose accounts

GST/HST is to be paid and accounted for appropriately when taxable supplies are purchased using specified purpose account (SPA) funds. Refer to the *Directive on Charging and Special Financial Authorities* for information on the definition and use of SPAs and subsection 9.1.4, "Cost-Sharing and Joint Project Agreements," of the *Financial Information Strategy Accounting Manual* for information on the accounting treatment.

General rule

In most cost-sharing and joint project agreements, GST/HST on the purchase of taxable supplies made with SPA funds is to be charged to the SPA and not to the GST RAA.

Exceptions

The GST RAA can be charged in the following situations:

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

B.5.7 Application of QST to real property transactions

Acquisitions of real property (as defined in the *Federal Real Property and Federal Immovables Act*) that add to the federal inventory are subject to applicable taxes. When a real property transaction is subject to QST, departments are responsible for paying the QST and charging the QST to the QST RAA.

The applicability of the QST to a real property transaction is the responsibility of the owner or the lessor, in accordance with Revenu Québec's place of supply rules. If they have questions as to the applicability of the QST to a given real property transaction, departments are encouraged to consult with their departmental tax coordinator, legal counsel and Revenu Québec.

B.5.8 Advance payments

Advance payments that are classified as prepayments, partial payments, progress payments or instalment payments are considered to be payment for a supply; therefore, the GST/HST and QST (when applicable) are payable on the value of the partial payment when the partial payment is due or when the partial payment is paid, whichever is earlier. However, if an advance payment is in the form of a deposit, then no taxable supply is considered to be made at the time the deposit is paid, so no tax is payable on the deposit.

Advance payments to non-residents of Canada

Advance payments for services to non-residents of Canada are subject to a 15% withholding tax under section 105 of the Income Tax Regulations unless prior approval using form R-105 (Regulation 105 Waiver Application) is obtained from the CRA.

Advance payments to non-residents of Quebec

Section 1015R18 of the *Regulation Respecting the Taxation Act* is applicable to advance payments made in respect of services to be performed in Quebec by a non-resident. If the services are or will be rendered in Quebec by a supplier who is not a resident of Canada, then Revenu Québec requires that 9% income tax be withheld from any payments, including advance payments to the non-resident supplier.

Footnotes

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