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Guide to Advance Payments

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Guide to Advance Payments

1. Date of publication

This guide was originally published on November 22, 2019, and incorporates changes effective June 20, 2024.

2. Application, purpose and scope

The purpose of this guide is to help departments meet the requirements for issuing advance payments, as set out in the *Directive on Payments*.

This guide provides details on the directive's requirements. It does not contain any additional requirements, but it does contain references to relevant policy and legislative requirements. Examples are included for illustrative purposes and may not apply to all departments or situations.

The guidance in this document applies to advance payments for the procurement of goods and services provided under various forms of contracts or agreements.

This guide does not apply to advance payments as defined in the *Directive on Transfer Payments*.

3. Definition of an advance payment

Advance payment: A payment made by or on behalf of His Majesty before the work, delivery of the goods, or rendering of the service has been completed.

When is a payment an "advance payment"?

A payment is considered to be an advance payment when it is issued before any goods have been received and accepted or before any services have been rendered. A payment made after partial completion of the work or when a specific milestone is met is not considered an advance payment.

Appendix A contains a decision tree for determining whether an advance payment is appropriate.

What is the difference between an early payment and an advance payment?

An early payment is a payment issued **after** the goods have been received and accepted or the services have been rendered but **before** its due date. An advance payment is a payment issued before any goods have been received or services rendered.

What is the difference between a loan and an advance payment?

Even though an advance payment sometimes has characteristics that are similar to those of a loan, an advance payment is not a loan.

A loan is a financial asset of the government that is represented by a promise by a borrower to repay a specific amount, at a specified time or times, or on demand, usually with interest. In other words, a loan must be repaid. For general information on loans, refer to the *Directive on Public Money and Receivables*.

An advance payment is a payment that is made by the government to a supplier in anticipation of the receipt of a good or a service under the terms of a contract. In short, when the government issues an advance payment to a supplier, the supplier is expected to eventually deliver a good or render a service. The supplier does not repay the amount of the advance payment as long as the goods and services agreed upon are received in accordance with the terms and conditions of the contract or agreement.

What is the difference between an accountable advance and an advance payment?

An accountable advance is issued in accordance with the *Accountable Advances Regulations* and represents a sum of money advanced to a person from an appropriation for which the person is accountable. Such advances may include items such as travel advances, relocation advances, or the establishment of a change or petty cash fund.

The main difference between an accountable advance and an advance payment is the source of the issuing authority. The authority to make an advance payment derives from the terms and conditions of a contract or agreement; the authority to make an accountable advance derives from an authority to issue advances such as the *Accountable Advances Regulations*.

The chief financial officer and the departmental financial policy team can provide advice on whether an accountable advance or an advance payment is appropriate in a specific situation. Consultation with the department's legal services unit may also be required.

For more information on accountable advances, refer to:

- *Accountable Advances Regulations*
- *Directive on Public Money and Receivables*
- *Financial Administration Act*, section 38

4. Information on requirements

The requirements for advance payments set out in the *Directive on Payments* can be summarized as follows:

- advance payments are issued only in exceptional circumstances
- advance payment clauses in contracts or agreements aim at minimizing risks
- justifications are to be documented for advance payments that impact a future fiscal year

4.1 Exceptional circumstances

Advance payments can be considered in exceptional circumstances only. Contractors are generally expected to finance their work from their reserves or through commercial financing based on the anticipated payments for full or partial completion of the work from the contract.

“Exceptional circumstances” indicates that an advance payment is the least preferred method of payment for the Crown. The Crown’s standard approach is to issue payment after the receipt and acceptance of goods or services.

Excerpt from subsection 4.1.1 of the *Directive on Payments*

The following are requirements:

- 4.1.1 Ensuring that advance payments are made only under exceptional circumstances and when:
 - 4.1.1.1 The payments are considered essential to achieving program objectives;
 - 4.1.1.2 No other reasonable payment alternative exists; and
 - 4.1.1.3 The payments are in accordance with a contract, agreement or legislation.

Rationale

An advance payment should be considered only when there is no other reasonable alternative. Before agreeing to an advance payment, departments should explore other possibilities, such as verifying whether there are other suppliers that will accept payment after they have delivered the goods or services.

When the government pays for goods or services after it has received them, it can better ensure that the conditions of the contract or agreement were respected.

Although the Crown's standard approach is to pay for goods and services after it has received them, in some industries or segments of industries, advance payments are an entrenched tradition or practice. For example, advance payments are the norm for certain types of information technology services, flights and training. In cases where paying in advance is an entrenched tradition or practice, advance payments are acceptable because no other reasonable alternative exists. The rationale for proceeding with an advance payment should be documented.

4.2 Minimizing risks when issuing advance payments

Advance payments involve risks since the goods and services are not yet received and accepted from the supplier. Therefore, advance payment clauses in a contract or agreement are important to minimize the risks of paying in advance and to ensure that the negotiated terms and conditions will be respected.

Excerpt from subsection 4.1.2 of the *Directive on Payments*

The following are requirements:

- 4.1.2 Ensuring that advance payment clauses address the following elements:

- 4.1.2.1 Advance payments are lawful charges against the appropriation;
- 4.1.2.2 Multi-year maintenance contracts and licensing agreements include at least one annual payment for each year of the contract; and
- 4.1.2.3 Funds are not carried forward into a future fiscal year through a transfer to specified purpose money or revolving fund, or by prepaying for goods and services from a revolving fund.

Rationale

When the government pays in advance, it takes on greater risk and has fewer recourse options if the agreement is not respected. It also creates administrative burden to keep track of the advance payment balance and to perform recovery actions of any excess advance payment amount issued.

By having advance payment clauses in a contract or agreement, departments can ensure the payments are issued for the intended use by minimizing the risks associated to them and to ensure a good stewardship of public funds.

4.3 Documentation of advance payment clauses in contract or agreement

Under subparagraph 34(1)(a)(ii) of the *Financial Administration Act*, if, under the terms of a contract, a payment is to be made before the completion of the work, delivery of the goods or rendering of the service, the appropriate minister or another person authorized by that minister must certify that the payment is in accordance with the

contract. In other words, it is the contract that provides the legal basis for certifying the advance payment. An advance payment clause must therefore be included in a contract or in an agreement.

A contract must contain an advance payment clause in order for a manager to exercise certification authority under section 34 of the *Financial Administration Act* before issuing the advance payment.

Contracts or agreements that could contain advance payment clauses include the following (this list is not exhaustive):

- a goods or services contract
- a lease
- a training or conference registration form (online or paper format if the completed form constitutes a legally binding obligation)
- terms and conditions of an online purchase agreement (if the purchaser binds themselves to the terms and conditions once they have completed the transaction, for example by clicking on “I agree”)

Excerpt from subsection 4.1.3 of the Directive on Payments

The following are requirements:

- 4.1.3 Ensuring justification is developed and documented in instances where:
 - 4.1.3.1 The expected value of the work performed, or goods and services received is less than the amount paid for in advance for a given fiscal year; and
 - 4.1.3.2 The recovery of advance payment amounts in excess of the expected value of work performed, goods delivered or services rendered is not received in the same fiscal year than the amount paid for in advance.

Rationale

Documentation when advance payments are issued will provide proper justification as to why the payments were made in advance. Departments must therefore document the details of the justification when advance payments must be issued as part of a contract or an agreement.

In addition, when advance payments straddle between fiscal years as part of the terms of a contract or an agreement, chief financial officers are to ensure that justifications are developed and documented. Advance payments are not to be used to avoid lapsing funds at the end of a fiscal year or as a way to carry funds forward from one fiscal year to the next.

5. Advance payments to other government departments

The requirements in the *Directive on Payments* for advance payments for goods and services also apply to payments made under interdepartmental agreements.

Usually, the department that receives the goods or services pays the department that provides the goods or services once the goods have been delivered and accepted or the services have been rendered.

Advance payments:

- can be issued to other government departments only in exceptional circumstances
- must be documented in an interdepartmental agreement
- cannot exceed the expected value of goods and services to be received in that fiscal year

The agreement should include requirements for:

- regular reconciliations of the advance payment against the value of goods and services received
- any excess advance payments to be returned by the end of the fiscal year

Excerpt from subsection 4.1.4 of the Directive on Payments

The following are requirements:

- 4.1.4 Ensuring the following for interdepartmental agreements:
 - 4.1.4.1 Advance payments in a given fiscal year relate to and do not exceed the reasonably expected value of the work performed or goods and services received during that year; and
 - 4.1.4.2 Advance payment amounts in a given fiscal year that exceed the expected value of work performed or goods and services received during that year are immediately recovered.

Rationale

Advance payments between departments apply only in situations where one department is providing goods or services to another department, which pays for them in advance. All recovery of excess of advance payment can be credited to the appropriation only if it is refunded in the same fiscal year in which the advance payment has been made.

The deposit of funds into an OGD (other government department) suspense account is not an advance payment. OGD suspense accounts are used when a department is administering a program on behalf of another department. For more information on OGD suspense accounts, refer to the *Directive on Charging and Special Financial Authorities* and the *Guide to Internal Charging and Special Financial Authorities*.

6. Financial authority to approve advance

payments

6.1 Expenditure initiation and commitment authority

Expenditure initiation and commitment authority (section 32 of the *Financial Administration Act*) is exercised for advance payments in the same way as it is for all other types of payments. The proposed expenditures must be reviewed against the unencumbered balance, and the commitment should be recorded in the department's financial system. Refer to the *Guide to Delegating and Applying Spending and Financial Authorities* for guidance on exercising spending and financial authorities.

6.2 Transaction authority

According to the *Directive on Delegation of Spending and Financial Authorities*, transaction authority is the authority to enter into contracts or to sign off on legal entitlements. This authority applies when advance payments are negotiated as part of the terms and conditions of a contract or agreement.

6.3 Certification authority

Before certifying an advance payment for the provision of goods and services, the delegated manager must ensure that the contract or agreement contains the terms for such a payment. If there is no written contract or agreement, the delegated manager cannot exercise certification authority (section 34 of the *Financial Administration Act*), which means that the advance payment cannot be issued. Refer to the *Guide to Delegating and Applying Spending and Financial Authorities* for guidance on exercising spending and financial authorities, including guidance on account verification and certification.

7. Other considerations

7.1 How to account for advance payments

Advance payments are to be recorded as a prepaid expense when payments are issued prior to the receipt of goods or the rendering of services.

When accounting for an advance payment on a **cash basis**, the advance payment must be charged against the appropriation when it is issued.

When accounting for an advance payment on an **accrual basis**, the advance payment must be recorded as a prepayment and expensed when goods and services are received.

For detailed instructions on recording prepayments, refer to the *Financial Information Strategy Accounting Manual*, specifically, subsection 3.4, Prepayments (including Prepaids and Deferred Charges).

7.2 Tax considerations for advance payments

Paying for goods and services in advance can have an effect on taxes, such as the applicability and collection of taxes on advance payments. For details, refer to the *Guide to Collecting and Paying Federal and Provincial Sales Taxes*.

7.3 Other administrative details

Chief financial officers should ensure that controls are in place to monitor advance payments. Monitoring should include regular reconciliation of advance payments against the value of the goods or services received. Regular monitoring is critical to promptly recovering advance payment amounts that exceed the expected value of the work performed or the goods and services received.

If a contractor does not deliver the goods or services for which an advance payment has been made, the manager, in consultation with the department's legal services unit, should review the terms and conditions of the contract and take the necessary action to recover the advance payment.

Refer to [Appendix B](#) for a summary that shows the steps involved in issuing an advance payment.

8. References

Legislation

- *[Financial Administration Act](#)*, sections 7, 32 to 34
- *[Government Contracts Regulations](#)*, sections 2 and 18

Related policy instruments

- *[Directive on Delegation of Spending and Financial Authorities](#)*
- *[Directive on Payments](#)*
- *[Directive on the Management of Procurement](#)*
- *[Financial Information Strategy Accounting Manual](#)* (subsection 3.4, Prepayments (including Prepays and Deferred Charges))

9. Enquiries

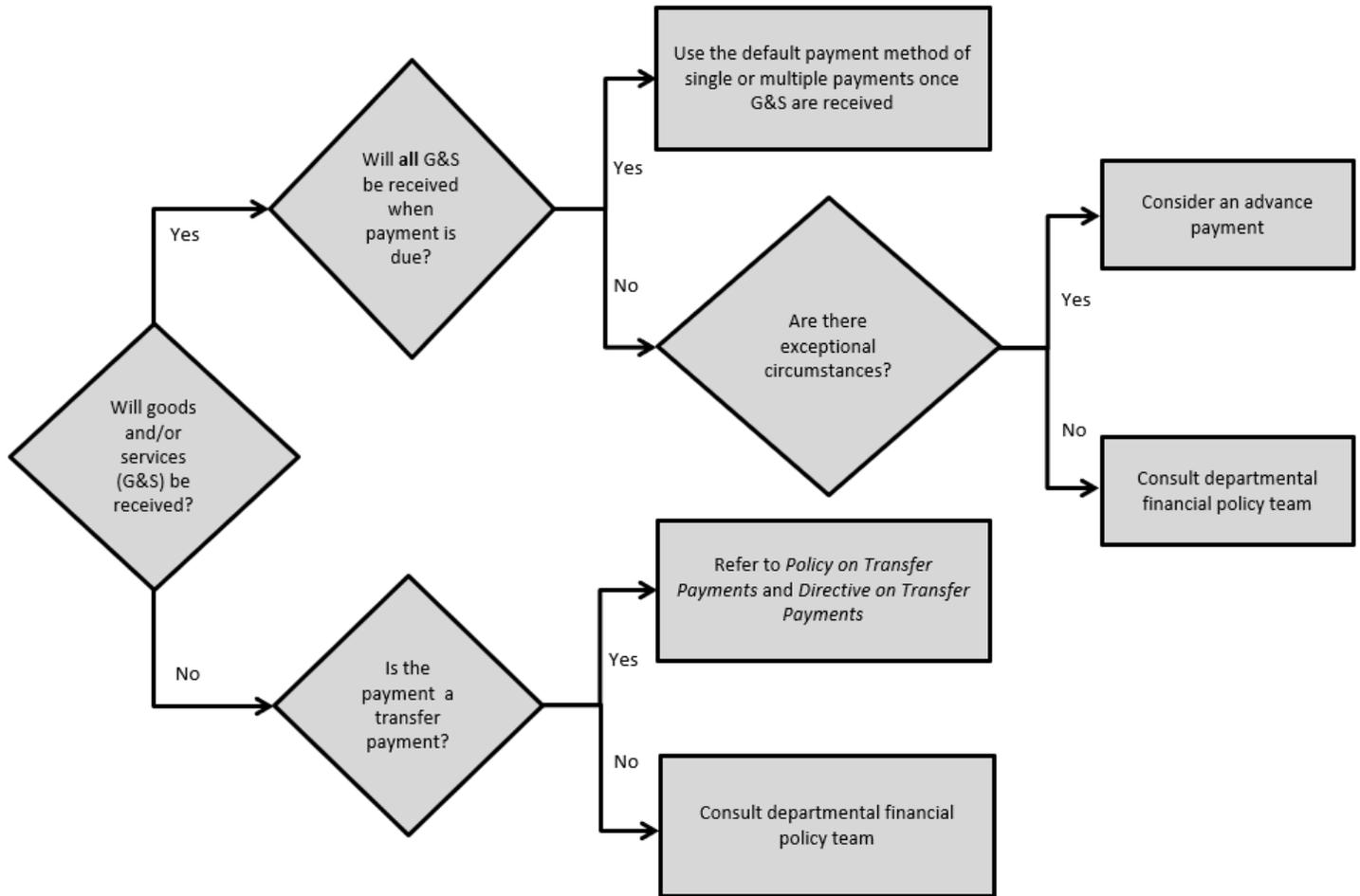
Members of the public may contact [Treasury Board of Canada Secretariat Public Enquiries](#) if they have questions about this guide.

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

Individuals from departmental financial policy groups may contact Financial Management Enquiries at fin-www@tbs-sct.gc.ca for interpretation of this guide.

Appendix A: Decision tree

This decision tree is intended to help individuals determine which method of payment to use and whether an advance payment is appropriate.



► Figure 1 - Text version

Reminder

An advance payment must be made only under **exceptional circumstances** when the payment is considered essential to achieving program objectives and when no other reasonable alternative exists. Advance payments are not to be used to avoid lapsing funds at the end of a fiscal year or as a way to carry funds forward from one fiscal year to the next.

Appendix B: Step by step summary

This summary is intended to help departmental managers, procurement officers, financial officers and financial policy teams when considering including provisions for advance payments in a contract or when issuing an advance payment.

Step 1: When determining the appropriate basis and method of payment to include in a contract, evaluate the risks associated with paying in advance for the goods or services (for example, risks such as non-performance, financial and interest costs, administrative burden). Make sure that measures are in place to minimize these risks.

Step 2: If advance payment is the option available, ensure that it is made under exceptional circumstances only.

Step 3: Document the terms of the advance payment in a contract or agreement. Remember, the contract or agreement provides the legal basis for issuing an advance payment. Also, if the contract does not provide for advance payments, the delegated manager cannot provide the certification, and the advance payment cannot be issued. Note: Any excess of advance payments received for interdepartmental settlement must be returned by the end of the fiscal year.

Step 4: Obtain authorization from the contracting authority to include advance payment terms in the contract. Keep track of any justification as to why advance payments are used as method of payment especially if they are straddling between fiscal years.

Step 5: Obtain certification of the advance payment under section 34 of the *Financial Administration Act*. Before obtaining certification, make sure that the contract contains the terms of the advance payment.

Step 6: Record the advance payment as a prepaid expense. Refer to the *Financial Information Strategy Accounting Manual*, subsection 3.4 Prepayments (including Prepaids and Deferred Charges), for details.

Step 7: Monitor the advance payment and regularly reconcile the payment amount and the value of the goods or services received.

Step 8: If applicable, promptly recover any advance payment amounts that exceed the value of goods delivered or services rendered.

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