



Canada Revenue  
Agency

Agence du revenu  
du Canada

# Small Business Information Seminar

Module II

Good and Services Tax/Harmonized Sales Tax

In this publication, we use the name “Canada Revenue Agency” and the abbreviation “CRA” to represent the Canada Customs and Revenue Agency. This reflects recent changes in the structure of the Agency.

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# Introduction

This module is part of a package designed primarily for the small business entrepreneur. It is intended to help you if you are planning to start a new business, or if you have already begun a business.

In this module, you will find general information to help you comply with the goods and services tax/harmonized sales tax (GST/HST) legislation.

The information covers a wide range of business situations and is general in nature. It includes how to collect, calculate, report, and remit the tax. We also briefly explain how GST/HST applies to certain transactions.

This module does not contain the special rules, exceptions, and rebates that apply to public sector bodies, such as charities and non-profit

organizations and to certain other businesses, such as financial institutions, tour operators, convention organizers, farmers, fishers, builders, and land developers. Other guides, pamphlets, and bulletins give more information for these specific groups, including details on their input tax credits, registration, and books and records.

For more information, visit our Web site at [www.cra.gc.ca](http://www.cra.gc.ca) or call 1-800-959-5525.

## **Note**

When we refer to supplies of goods and services in this module, we mean the supply of goods and services in any manner, including by way of sale, transfer, barter, exchange, licence, lease, rental, gift, or disposition.

# 1. How GST/HST Works

**G**ST is a 7% tax that applies on most taxable supplies of goods and services made in Canada.

**HST** is a 15% tax that applies on most taxable supplies of goods and services made in the three participating provinces: Nova Scotia, New Brunswick, and Newfoundland and Labrador. The rate is higher than the GST because it combines the GST and the provincial sales tax of the participating province to form a single tax. HST follows the same basic operating rules as GST. You will find more information about HST on page 14.

Some items, such as basic groceries and prescription drugs, are subject to GST/HST, but at a rate of 0%. These are called **zero-rated** goods and services. A small number of goods and services are **exempt** from GST/HST. For details on the taxable, zero-rated, and exempt categories, see section called “Types of goods and services” on page 6.

The term **commercial activity** in this module means any business, adventure, or concern in the nature of trade carried on by certain persons, except when making exempt supplies.

**Taxable goods and services** include goods and services taxable at 0% (zero-rated), 7%, or 15%.

If you are making taxable supplies of goods and services in Canada, you may have to register for GST/HST. If you are registered or must register for GST/HST, you are a **registrant**. As a registrant, you must charge the tax on taxable supplies of goods and services you make to your customers and remit it to us.

For more information, see the section called “Registering Your Business for GST/HST” on page 8.

As a registrant, you can also claim credits called input tax credits (ITCs) to recover the GST/HST you paid or owe on any purchases and expenses you use, consume, or supply in your commercial activities. For details, see the section called “Input tax credits (ITCs)” on page 11.

## Example

You are a registrant and you sell shoes. You purchase your shoes from a wholesaler who charges you GST or HST. When you resell the shoes to your customers, you must also charge the tax. You can claim an ITC to recover the GST or HST you paid or owe on the purchase of the shoes from the wholesaler.

As a registrant, you must prepare and send us a GST/HST return at regular intervals (for details, see the section called “Reporting periods” on page 9). On this return, you show the amount of tax you charged your customers, as well as the amount of tax you were charged on your purchases (as ITCs). You include all GST/HST you were required to pay or collect, whether or not you actually paid or collected it. You deduct your ITCs from the GST/HST you charged your customers. The difference between what you charged your customers and what you were charged on your purchases is your **net tax**. If the GST/HST you charged your customers is **more** than your ITCs, you send us the difference. If the GST/HST you charged is **less** than the GST/HST you were charged, you can claim a refund.



## Types of goods and services

There are three types of goods and services for GST/HST purposes:

- goods and services taxable at 7% or 15%;
- goods and services taxable at 0% (zero-rated); and
- exempt goods and services.

### Goods and services taxable at 7% or 15%

Most goods and services supplied in Canada are subject to GST/HST at the rate of 7% or 15%. As a registrant, when you supply these goods and services, you generally must charge GST/HST to your customers. You can also claim input tax credits for the GST/HST you paid or owe on your business purchases for use in your commercial activities. Examples of goods and services taxable at 7% or 15% include:

- sales and leases of automobiles;
- gasoline and car repairs;
- soft drinks, candies, and potato chips;
- clothing and footwear;
- taxi and limousine fares;
- legal and accounting fees;
- franchise fees;
- hotel accommodation; and
- barber and hairstylist services.

### Goods and services taxable at 0% (zero-rated)

A limited number of supplies of goods and services are taxable at the rate of 0% (they are **zero-rated**). As a registrant, you do not charge GST/HST on zero-rated goods and services. However, you can claim input tax credits for the GST/HST you paid or owe on your purchases for use in your commercial activities. Examples of zero-rated goods and services include:

- basic groceries such as milk, bread, fruits, and vegetables;

- prescription drugs and drug dispensing fees;
- agricultural products such as grain, raw wool, and dried tobacco leaves, most farm livestock, and most fish products (such as fish for human consumption);
- medical devices such as hearing aids and artificial teeth; and
- exports (most goods and services taxable at 7% or 15% in Canada are zero-rated when exported).

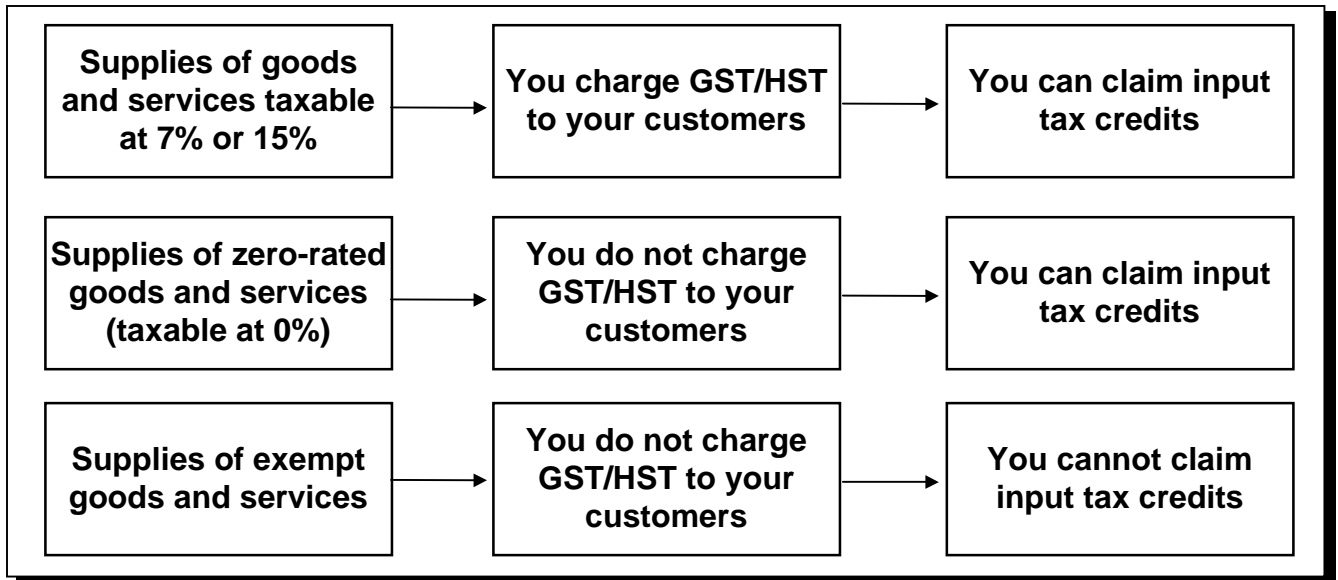
### Exempt goods and services

Some supplies of goods and services are not subject to GST/HST (they are **exempt**). You do not charge GST/HST on exempt goods and services, and you cannot claim input tax credits for the GST/HST you paid or owe on purchases related to supplying exempt goods and services. Generally, if you supply **only** exempt goods and services, you cannot register for GST/HST. Examples of exempt goods and services include:

- used residential housing;
- long-term residential accommodation (of one month or more) and residential condominium fees;
- child care services (day-care services usually for less than 24 hours a day) provided primarily to children 14 years old and younger;
- most health, medical, and dental services performed by licensed physicians or dentists for medical reasons;
- bridge, road, and ferry tolls (ferry tolls are zero-rated if the service is to or from a place outside Canada);
- many educational services such as courses supplied by a vocational school leading to a certificate or diploma for a trade or vocation, or tutoring services for an individual in a course that follows a curriculum designated by a school authority;
- music lessons;

- most services provided by financial institutions such as arrangements for a loan or mortgage;
- arranging for and issuing insurance policies by insurance companies, agents, and brokers;
- most goods and services provided by charities; and
- certain goods and services provided by non-profit organizations, governments, and other public service bodies, such as municipal transit services and standard residential services (for example, water distribution).

The following chart summarizes when GST/HST applies and when you can claim input tax credits.



## 2. Registering Your Business for GST/HST

### Should you register for GST/HST?

You must register for GST/HST if your and your associates' total worldwide revenues from taxable goods and services (taxable at 7%, 15%, and 0%) are **more than \$30,000** in the preceding four consecutive calendar quarters or in any given calendar quarter. This amount does not include goodwill, financial services, and sales of capital property.

#### Note

If you are a public service body (charity, non-profit organization, municipality, public college, university, school authority, or hospital authority), this amount is \$50,000.

If your total taxable revenues in Canada are \$30,000 or less (\$50,000 or less for public service bodies), you are considered a **small supplier**.

In this case, you do not have to register for GST/HST, although you may register voluntarily. If you are a small supplier and decide not to register for GST/HST, you do not charge GST/HST to your customers and you cannot claim input tax credits. If you register voluntarily, you must charge GST/HST to your customers and you are entitled to claim input tax credits.

If you no longer need to be registered because you close your business, stop making taxable supplies, or become a small supplier, you can ask us to cancel your registration. If you are a small supplier, you must stay registered for at least one year before you can apply to cancel your registration. If you cancel your registration, you may have to remit part of the input tax credits you claimed on certain properties you have on hand, such as inventory and capital property.

You can register for GST/HST account on our Web site at [www.businessregistration.gc.ca](http://www.businessregistration.gc.ca) or call our 1-800-959-5525.

For additional information, see our guide called *General Information for GST/HST Registrants* (RC4022).

### Business Number

When you register for GST/HST, we assign you a **Business Number** (BN).

The BN is a numbering system that simplifies and streamlines the way that businesses deal with the federal government. It is based on the idea of one business, one number. The BN is the key to being able to provide efficient, one-stop service for businesses. This means savings of time and money for businesses.

The BN consists of two parts—the registration number and the account identifier, for a total of 15 characters:

- nine digits to identify the business; and
- two letters and four digits to identify each account.

The BN system currently applies to the following four major Canada Revenue Agency (CRA) accounts that many businesses have, as well as others:

- GST/HST (identifier "RT");
- payroll deductions (identifier "RP");
- corporate income tax (identifier "RC"); and
- customs import/export accounts (identifier "RM").

For example, your BN could look like this:

**1 2 3 4 5 6 7 8 9      R T 0 0 0 2**  
(Registration number)    (Account identifier)

If you have only one account (GST/HST for example), we will show the account like this:  
1 2 3 4 5 6 7 8 9 RT 0001.

When making payments or enquiries related to your account, you must provide the nine-digit registration number and identify the type of account in question.



## 3. Your Obligations and Entitlements

As a registrant, you are responsible for charging GST/HST on taxable supplies of goods and services to your customers. You must also complete and send us GST/HST returns at regular intervals (reporting periods) to report your net tax.

### Reporting periods

When you register for GST/HST, we assign you a schedule for filing your GST/HST returns based on your total annual taxable supplies. This amount includes all supplies made in Canada, including supplies of zero-rated goods and services, as well as the annual taxable supplies of all your associates (if applicable). This amount does not include zero-rated exports of goods and services, zero-rated financial services, taxable sales of capital real property, and goodwill. Before each filing due date, we will send you a personalized return.

Although we assign you a specific reporting period, you may choose another period if you meet certain conditions. The following information explains each reporting period, as well as any options available.

#### Monthly reporting period

You must file every month if your business has annual taxable supplies of more than \$6 million. If your taxable supplies do not decrease during the current fiscal year, you must remain a monthly filer.

You must file your return no later than one month after the end of your reporting period.

#### Quarterly reporting period

If your business has annual taxable supplies of more than \$500,000 but not more than \$6 million, we will assign you a quarterly reporting period (every three months). You can choose to file every month by calling us or completing and sending us Form GST20, *Election for GST/HST Reporting Period*.

You must file your return no later than one month after the end of your reporting period.

#### Annual reporting period

If your annual taxable supplies are \$500,000 or less, we will assign you an annual reporting period. You can choose to file on a monthly or quarterly basis by calling us or completing and sending us Form GST20, *Election for GST/HST Reporting Period*.

You may be required to make quarterly instalments (every three months) based on the amount of tax you must remit. You calculate your instalment payments using whichever of the following two amounts is less:

- an estimate of your current year net tax; or
- the amount of last year's net tax.

If you base your instalments on an estimate of your current year net tax, and underestimate your net tax, we may charge you penalty and interest.

If the amount of net tax you must remit in the current or previous year is less than \$1,500, you do not have to make quarterly instalments for the current year. You may not have to make quarterly instalments for your first fiscal year, as your previous year's net tax is less than \$1,500. You send us the net tax for that year only, when you file your GST/HST return.

Before each instalment due date, we will send you Form GST58, *Goods and Services Tax/Harmonized Sales Tax (GST/HST) Remittance*. Instalment payments are due no later than one month after the last day of each of your fiscal quarters.

On your annual return, you will report the net tax for the reporting period, as well as the instalments you paid. The return is due no later than three months after the end of your fiscal year.

If you are an individual with business income for income tax purposes, and also an annual filer for GST/HST with a December 31 year-end, you have until June 15 to file your GST/HST return. However, you must send us any net tax owing by April 30.

## How to stop filing GST/HST returns temporarily

As a registrant, you must file your returns for each reporting period, even if you do not have to remit any net tax.

However, if you file on a quarterly or monthly basis and you meet certain criteria, you may be eligible to stop filing GST/HST returns for reporting periods for which you have little or no GST/HST to report (for example, if you have a seasonal or part-time business, or if you are a non-resident business that operates a business in Canada for a short period of time). For more information, visit our Web site at [www.cra.gc.ca](http://www.cra.gc.ca) or call 1-800-959-5525.

## GST/HST returns

For each GST/HST reporting period, you must calculate your **net tax**. This is the difference between two amounts, calculated as follows:

- the GST/HST you charged during the reporting period, minus
- the input tax credits you claim for the GST/HST you were charged.

If the net tax is **positive**, you must remit the net tax owing. If the net tax is **negative**, you can claim it as your net tax refund.

There are two types of GST/HST returns. Form GST34, *Goods and Services Tax/Harmonized Sales Tax (GST/HST) Return for Registrants* (a personalized return), is a one-page form that we send you. It contains preprinted information about your account. Form GST62, *Goods and Services Tax/Harmonized Sales Tax (GST/HST) Return (Non-Personalized)*, is for an individual or a business that is not registered for GST/HST but that needs to remit tax.

If you have not received the personalized GST/HST return (Form GST34) 15 working days before its due date, or if you lose your GST/HST return, call 1-800-959-5525 to get a Form GST62.

### Note

Even if you do not receive your personalized GST/HST return on time, you must meet the deadline for filing your return and for

making any net tax remittance. Form GST62 can then be used.

## Separate GST/HST returns for branches and divisions

Although you must register your business for GST/HST as a single entity, you can apply to have your branches or divisions file separate GST/HST returns. You need to complete Form GST10, *Application or Revocation of the Authorization to File Separate GST/HST Returns and Rebate Applications for Branches or Divisions*. To qualify, your branches or divisions must be separately identified by their location or the nature of their activities, and they must keep separate records. However, they must keep the same reporting periods as the parent company.

## Collecting GST/HST

As a registrant, you must collect GST/HST on your taxable (except zero-rated) supplies of goods and services to your customers. GST/HST generally applies to your supplies of goods and services on the day you receive payment for the goods and services or the day the payment is due, whichever day is earlier. We usually consider a payment to be due on the date you issue an invoice, or the date of the invoice, whichever is earlier. Where there is no invoice, we will consider payment to be due on the date that payment is due under a contract.

If you issue an invoice in a reporting period, you must report the amount of GST/HST you charged on this invoice when you file your GST/HST return for that reporting period. Include on **line 103** of the return the total amount of GST/HST that you charged on invoices for that reporting period, **whether or not you have collected the tax**.

### Example

ABC Inc. is an annual filer with a January to December reporting period. ABC sold a computer to XYZ Inc. on December 20, 2003, and issued an invoice for \$2,000, plus \$140 in GST, at that time. Although ABC did not receive the payment until January 20, 2004, ABC includes the GST in its 2003 GST/HST return.

## Provincial sales tax

When you have to charge both GST and provincial sales tax (PST), you calculate GST on the purchase price excluding PST. For information on collecting PST, contact your provincial sales tax office.

## Informing your customers

You must show your customers the GST/HST payable or let them know that the amount payable includes GST/HST. This can be done on the invoice, receipt, contract, or by displaying signs at your place of business. If you show GST/HST on an invoice, receipt, or contract, you must clearly indicate the amount of tax or the rate of tax (7% or 15%).

## Input tax credits (ITCs)

As a GST/HST registrant, you can claim ITCs for the GST/HST you paid or owe on your purchases and operating expenses that are sold, used, or consumed in your commercial activities. Commercial activities include the

supply of goods and services taxable at 0%, 7%, and 15%. Commercial activities do not include the supply of exempt goods and services, such as long-term residential rent (for example, of one month or more). **Therefore, you cannot claim ITCs for the GST/HST you paid or owe on items that you use to provide exempt goods and services, or for personal use.**

Some examples of goods and services on which you can claim ITCs are:

- merchandise you purchase for resale;
- capital property such as office furniture, vehicles, equipment, and real property; and
- general operating expenses such as office rent, utilities, office supplies, advertising services, and the rental of equipment such as computers, vehicles, and photocopy machines.

If you added a column to the “purchases” side of your books to record the GST/HST you paid, total the column to determine your ITCs.

### Example

ABC Retailer Ltd., located in Ontario, calculated that it had paid \$1,232 in GST during the first quarter of 2004, as illustrated in the following chart:

ABC Retailer Ltd.				
Purchases (expenses)			(as of March 31, 2004)	
Date	Cheque no.	Description	Purchase price*	GST paid
Jan. 20	349	Merchandise	\$ 5,000	\$ 350
Jan. 27	350	Utilities	\$ 200	\$ 14
Jan. 31	351	Rent	\$ 2,000	\$ 140
Feb. 15	352	Supplies	\$ 1,000	\$ 70
Feb. 27	353	Utilities	\$ 200	\$ 14
Feb. 27	354	Rent	\$ 2,000	\$ 140
Mar. 12	355	Merchandise	\$ 5,000	\$ 350
Mar. 31	356	Rent	\$ 2,000	\$ 140
Mar. 31	357	Utilities	\$ 200	\$ 14
<b>Total</b>			<b>\$17,600</b>	
<b>Total input tax credit</b>				<b>\$1,232</b>

\* Price does not include GST or provincial sales tax.

You **cannot** claim an ITC for the following amounts because they are not subject to GST/HST:

- employee wages;
- payment of interest and dividends;
- most federal, provincial, and municipal taxes; and
- most fees, fines, and levies.

Most registrants claim their ITCs when they file their GST/HST return for the reporting period in which they made the related purchases.

However, you can claim your ITC in any reporting period that ends within **four years** of the end of the reporting period in which you made the purchase that qualifies for the credit. When you calculate your ITCs, you can include purchases for which you have received an invoice, but that you have not yet paid.

### General operating expenses

General operating expenses are expenses you incur in the day-to-day operation of your business. These expenses include management, administration and other support functions of the business, commercial leases, equipment rentals, as well as office supplies such as computer disks, paper, and pens.

If you use goods and services partly for personal use or for making exempt supplies, you can claim a partial ITC to the extent that they are used in a commercial activity.

To determine if you can claim ITCs on general operating expenses, follow these rules:

- If the commercial use is 10% or less, you cannot claim ITCs.
- If the commercial use is more than 10% but less than 90%, you base your ITCs on the percentage used in commercial activities.
- If the commercial use is 90% or more, you can claim full ITCs.

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### Example

You own a building in which you operate a retail store (a commercial activity) and rent an apartment to a residential tenant (an exempt activity).

Your utility bill for the entire building is \$200 a month plus \$14 GST. You determine that 70% of the utility bill relates to the store and 30% relates to the apartment. You can claim an ITC for 70% of the GST you paid on your utility bill:

$$\$14 \text{ GST} \times 70\% = \$9.80 \text{ (ITC)}$$

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You must use a method that is fair and reasonable to determine the part of your general operating expenses that you use in your commercial activities. You must also use the same method throughout your fiscal year. One method commonly used is to divide the number of square metres of space used in your commercial activities by the total space of the building. You will then apply the resulting percentage to your expenses.

### Capital property

Special rules exist to calculate ITCs for capital property. Capital property is usually an expensive good that wears out as it is used in the business over the years. It includes:

- any depreciable property that is eligible or would be eligible for capital cost allowance for income tax purposes; and
- any other property for which any gain or loss if you dispose of the property would be a capital gain or capital loss for income tax purposes.

There are two types of capital property: capital personal property and capital real property.

### Capital personal property

The rules for claiming ITCs for capital personal property such as computers, equipment, and office furniture are as follows:

- If the commercial use is more than 50%, you can claim a full ITC.

- If the commercial use is 50% or less, you cannot claim ITCs.

### Exception

This rule does not apply to passenger vehicles and aircraft of an individual or a partnership. For details, see our guide called *General Information for GST/HST Registrants* (RC4022).

### Example

You purchase a computer for \$2,000 plus \$140 GST. You will use the computer 60% in your commercial activities and 40% for personal use. Since your use of the computer in commercial activities will be more than 50%, you can claim the full amount of GST you paid (\$140) as an ITC.

### Capital real property

The rules for claiming ITCs for capital real property, such as a building, are more complex and depend on whether you are a corporation, a partnership, an individual, a financial institution, or a public sector body.

The following chart shows the general rules for claiming ITCs on capital real property. For more information, see our guide called *General Information for GST/HST Registrants* (RC4022).

Percentage of use in commercial activities	Partnerships and corporations	Individuals	Public sector bodies	Financial institutions
10% or less	Nil	Nil	Nil	% of use
over 10% up to 50%	% of use	% of use *	Nil	% of use
over 50% but less than 90%	% of use	% of use	100%	% of use
90% or more	100%	100%	100%	% of use

\* If the personal use part is more than 50%, the input tax credit is nil.

### Meals and entertainment

To calculate your ITCs for GST/HST on meals and entertainment expenses, use the same limitation rules used for income tax purposes.

If you pay or owe GST/HST on food, beverages, and entertainment expenses for use in your commercial activities, and your deduction for income tax purposes is limited to 50% of the cost of these expenses, you can claim only 50% of the tax you paid or owe on these expenses.

This rule does not apply to charities and public institutions. These organizations can claim a full ITC for the GST/HST they pay or owe on meals and entertainment expenses for commercial activities.

There are two methods for calculating your ITCs on these expenses. For details, see our guide called *General Information for GST/HST Registrants* (RC4022).

## 4. General Information on HST

**H**ST is a tax that is charged at a single rate of 15% on goods and services supplied or delivered in the three participating provinces of Nova Scotia, New Brunswick, and Newfoundland and Labrador. Of this, 7% is the federal part and 8% is the provincial part. HST applies at the rate of 15% to the same base of goods and services that are taxable at 7% under GST.

If you are registered for GST, you are automatically registered for HST. Therefore, you must charge and remit HST on taxable supplies of goods and services (other than zero-rated) that you supply in a participating province and on goods that you ship or mail to a customer in a participating province.

When you complete your GST/HST return, you do not show the federal and provincial parts of HST separately, or separate the tax collected or payable at the 7% rate from that at the 15% rate. You use the same return for both taxes. The rules concerning input tax credits are the same for HST as for GST.

This section contains general information on HST and the rules that determine when a supply is made in a participating province. It does not contain the special rules for motor vehicles, telecommunication services, supplies made partly in a participating province and partly in a non-participating province, and goods and services brought into a participating province. If you need information on those special rules, see our guide called *General Information for GST/HST Registrants (RC4022)*.

### Supply of goods

We consider that goods are supplied in a participating province if they are delivered or made available to a customer in a participating province (including by mail, common carrier, or courier).

### Lease of goods

We consider that goods are leased in a participating province if:

- in an agreement that is for three months or less, the goods are delivered or made available to the customer in a participating province; or
- in an agreement that is for more than three months, the ordinary location of the goods is in a participating province at the time the supply is made.

### Services

We consider that a service is made in a participating province if at least 90% of the service is performed in that province.

### Real property and services related to real property

Generally, we consider that the sale of real property is made in a participating province if the property is situated in that province. A service related to real property is made in a participating province if at least 90% of the property is situated in that province.

### Intangible property

We consider that a supply of intangible property (such as franchise rights) is made in a participating province if:

- for Canadian rights (rights that can be used in Canada), at least 90% of the rights that may be used or exercised in Canada can be used only in that province;
- where the intangible property relates to real property or goods, at least 90% of the real property situated in Canada, or goods ordinarily located in Canada, are in that province; or
- where the intangible property relates to services, at least 90% of the services to be performed in Canada are to be performed in that province.

## 5. Simplified Accounting Methods

You may be eligible to use the following simplified accounting methods, which can help you reduce your paperwork and bookkeeping costs in calculating GST/HST:

- the Quick Method of accounting that simplifies your net tax calculation; and
- the Simplified Method to calculate your input tax credits.

### Quick Method of accounting

The Quick Method of accounting is a simple way to calculate the GST/HST you must remit. You can use the Quick Method if your annual worldwide taxable supplies and those of your associates (including zero-rated supplies) are no more than \$200,000 (including GST/HST) in any four consecutive fiscal quarters over the last five fiscal quarters. This amount does not include supplies of financial services, sales of real property, sales of capital assets, and goodwill.

#### Note

If you decide to use the Quick Method, you must use it for at least one year.

Currently, the following businesses **cannot** use the Quick Method:

- accountants, bookkeepers, and audit services;
- financial consultants;
- lawyers, law offices, and notaries public;
- listed financial institutions;
- tax preparation services and tax consultants;
- actuaries;
- charities; and
- municipalities, hospital authorities, qualifying non-profit organizations, and school authorities, universities, and public colleges that are established and operated otherwise than for profit (there is a special Quick Method for these institutions).

With the Quick Method, you charge and collect GST/HST on taxable supplies in the usual way. However, to calculate the GST/HST to remit, first you total your supplies taxable at 7% including GST and your supplies taxable at 15% including HST that are made during the reporting period. Then, you multiply the result by the Quick Method remittance rate (or rates) that applies to those supplies for your type of business. The remittance rates are explained on the page 16.

When you use the Quick Method, you cannot claim input tax credits on your day-to-day operating expenses and inventory purchases. However, you can claim input tax credits for purchases of goods that are eligible for capital cost allowance under the *Income Tax Act*, and for purchases of land. This includes buildings, computers, vehicles, other equipment, and machinery. You can claim these credits when you complete your GST/HST return. However, if you dispose of capital assets, you must remit the full 7% GST or 15% HST, not the Quick Method percentage.

### Supplies in both participating and non-participating provinces

If you make supplies in both participating and non-participating provinces, you normally have to use more than one remittance rate.

However, if 90% or more of your eligible supplies that are made through a permanent establishment in a reporting period are made in participating provinces, treat all your eligible supplies made through that establishment for that reporting period as if they had been made in a participating province.

If 90% or more of your eligible supplies that are made through a permanent establishment during a reporting period are made in non-participating provinces, treat all your eligible supplies through that establishment for that reporting period as if they had been made in a non-participating province.

If your supplies meet one of the 90% tests, you only have to use one remittance rate for all your supplies through that establishment.

You will use the remittance rate appropriate to your business, as described in the next section.

There are two groups of remittance rates. The one you use depends on the type of business you carry on:

- rates for businesses that purchase goods for resale; or
- rates for businesses that provide services.

### **Remittance rates for businesses that purchase goods for resale**

Generally, retailers and wholesalers who purchase goods for resale use this group of remittance rates. To use these remittance rates, the cost (including GST/HST) of goods you purchased in your previous fiscal year for resale, or for use in goods that you produce or manufacture for resale, must be at least 40% of your total annual taxable supplies (including GST/HST) for that fiscal year. **Do not** include in this calculation the following:

- annual taxable supplies of associated businesses;
- purchases of basic groceries or purchases on which you do not have to pay tax;
- supplies of basic groceries and financial services, and sales of eligible capital property, sales of real property, capital property, goodwill, and goods you sold by auction on behalf of someone else.

Examples of businesses that may use this group of Quick Method remittance rates include:

- antique dealers;
- grocery and convenience stores;
- art and craft shops;
- boutiques and novelty stores; and
- service stations (gas).

The remittance rates for these businesses are:

- **2.5%** for eligible supplies made in a non-participating province through a permanent establishment of the business in a non-participating province;

- **9.3%** for eligible supplies made in a participating province through a permanent establishment of the business in a non-participating province;
- **0%** for eligible supplies made in a non-participating province through a permanent establishment of the business in a participating province; and
- **5%** for eligible supplies made in a participating province through a permanent establishment of the business in a participating province.

#### **Note**

Registrants who use the 0% remittance rate for eligible supplies can claim a 2.1% credit on those supplies because they generally pay 15% HST on their purchases, but charge 7% GST for those supplies.

### **Remittance rates for businesses that provide services**

This group of remittance rates is for businesses that do not qualify for the first group of remittance rates. Generally, this group applies to small businesses that provide services.

Examples of businesses that may use this group of Quick Method remittance rates include:

- delivery services;
- dry cleaners;
- auto repair shops;
- quick-service food outlets;
- caterers and delicatessens;
- housecleaning services;
- campgrounds;
- photographers;
- taxi drivers; and
- painting contractors.

The remittance rates for this group are:

- **5%** for eligible supplies made in a non-participating province through a permanent establishment of the business in a non-participating province;



- 11.6% for eligible supplies made in a participating province through a permanent establishment of the business in a non-participating province;
- 3.2% for eligible supplies made in a non-participating province through a permanent establishment of the business in a participating province; and
- 10% for eligible supplies made in a participating province through a permanent establishment of the business in a participating province.

### **Credit of 1% on the first \$30,000 of eligible supplies**

If you calculate your net tax using the Quick Method, you are entitled in **each** fiscal year to a 1% credit on the first \$30,000 (including GST/HST) of your eligible supplies on which you must collect 7% GST or 15% HST.

If you file GST/HST returns quarterly or monthly, you calculate the 1% credit beginning in the first and successive reporting periods in that fiscal year until you reach the \$30,000 limit, or the fiscal year ends. If you are a new GST/HST registrant, you calculate the credit beginning on the day you became a registrant.

If you file annual GST/HST returns, use the 1% credit on your first \$30,000 of eligible supplies in that fiscal year.

#### **Note**

To qualify for the 1% credit, your Quick Method election must be in effect at the beginning of the fiscal year or, if you are a new registrant, on the day you became a registrant.

To use the Quick Method, complete Form GST74, *Election and Revocation of an Election to Use the Quick Method of Accounting*, and send it to us. You can find this form and more details on the Quick Method in the booklet called *Quick Method of Accounting for GST/HST* (RC4058).

### **Simplified Method to calculate input tax credits (ITCs)**

You can use the Simplified Method if you are registered for GST/HST and your (and your associates') annual worldwide taxable revenues from supplies of goods and services were \$500,000 or less in your last fiscal year and the previous fiscal quarters of your current fiscal year. Do not include goodwill, zero-rated financial services, and sales of capital real property.

In addition, you must have \$2 million or less in taxable purchases in Canada in your last fiscal year. This limit excludes zero-rated purchases, but includes purchases imported into Canada or brought into a participating province.

You use the Simplified Method to calculate your ITCs if you do not want to keep track of the GST/HST you paid or owe on your business purchases.

If you qualify, you can start using the Simplified Method at the beginning of any reporting period. You do not have to file any form to use it. After you decide to use this method, you must use it for at least one year if you continue to qualify.

Using this method, your records do not have to show the GST/HST separately from the total purchases. However, you must be able to total your taxable purchases for which you can claim an ITC. In addition, if you make purchases in both participating and non-participating provinces, you must separate purchases on which you paid GST and those on which you paid HST. You must keep the usual documents to support your ITCs claims for audit purposes.

### **Purchases on which you paid GST**

To calculate your ITCs, you multiply your total taxable purchases (including GST) by 7, and divide the result by 107:

$$(\text{purchases} \times 7 / 107)$$

## Purchases on which you paid HST

To calculate your ITCs, you multiply your total taxable purchases (including HST) by 15, and then divide the result by 115:

$$(\text{purchases} \times 15/115)$$

You can use the Simplified Method to calculate the ITCs for your GST/HST return. Using this method does not affect the way you charge, collect, or report GST/HST on supplies. To use the Simplified Method, follow the steps below.

You can only use the Simplified Method of calculating ITCs for purchases you use to provide taxable supplies of goods and services. If you use a purchase to provide both taxable and exempt goods and services, or for personal use, only the part used for providing taxable goods and services can be included in the ITC calculation.

### Step 1

Separately total your business purchases and expenses that are taxable at 7% GST and 15% HST and for which you can claim an ITC. Include purchases of capital personal property and improvements if their use will be more than 50% commercial.

**Include** in your totals:

- GST or HST;
- non-refundable provincial sales taxes (PST) (only for purchases taxable at 7% GST);
- taxes or duties on imported goods;
- reasonable tips;
- reimbursements for taxable expenses paid to employees, partners, and volunteers; and
- interest and late penalty charges related to purchases taxable at 7% or 15%.

**Do not include** the following expenses:

- expenses on which you have not paid GST/HST, such as employees' salaries, insurance payments, interest, exempt or zero-rated purchases, and purchases from a non-registrant;

- purchases you made outside Canada which are not subject to GST/HST;
- real property purchases;
- refundable or rebatable PST;
- if you are an individual or partnership, passenger vehicles and aircraft you bought or imported and that you will use less than 90% in commercial activities;
- the part of purchases used in exempt activities or for personal use for which you are not entitled to claim an ITC;
- 50% of meal and entertainment expenses (you may include 100% of the expenses and make the 50% adjustment at the end of your fiscal year); and
- amounts paid or payable in reporting periods before you started using the Simplified Method to calculate your ITCs.

### Step 2

For GST purchases, multiply the total taxable purchases from Step 1 by 7, and divide the result by 107.

For HST purchases, multiply the total taxable purchases from Step 1 by 15, and divide the result by 115.

### Step 3

Add to the result from Step 2 any of the following amounts that apply:

- ITCs you did not claim before using the Simplified Method, if within the time limit;
- ITCs you paid or owe on real property purchases;
- for an individual or partnership, the ITC you may claim for a passenger vehicle or aircraft that you use less than 90% in commercial activities.

See the example on the following page.

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**Example**

<b>Description</b>	<b>Expenses*</b>
Rent	\$1,070
Employees' salaries**	\$3,000
Insurance **	\$ 50
Capital property used more than 50% in commercial activities	\$ 575
Advertising expenses	\$ 214
Office supplies	\$ 230
Inventory purchases	<u>\$1,150</u>
<b>Total purchases and expenses</b>	<b><u>\$6,289</u></b>

\* Includes GST and non-refundable PST.  
\*\* GST does not apply.

**Step 1**

Add all purchases and expenses  
including GST and PST \$6,289

Subtract employees' salaries  
and insurance (\$3,000 + \$50) (3,050)

**Taxable expenses** \$3,239

**Step 2**

Multiply taxable expenses  $\frac{\$3,239 \times 7}{107}$

**Input tax credit** = \$211.90

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## 6. Appeals and Fairness Provisions

Once we have processed your GST/HST return, you may receive a *Notice of Assessment*. You are entitled to object to an assessment or reassessment if you believe that the law has been applied incorrectly. The appeal procedures for GST/HST are similar to those for income tax.

### Preliminary enquiries

If you do not understand or agree with an assessment, call **1-800-959-5525** for an explanation. We resolve many problems with assessments this way.

### Objection process

If you still disagree with your assessment, you can file an objection. To do this, complete Form GST159, *Notice of Objection (GST/HST)*, and send it to your tax services office within 90 days of the date we mailed your *Notice of Assessment*. You can find the address of your tax services office at [www.cra.gc.ca](http://www.cra.gc.ca) or in the government section of your telephone book.

When we receive your objection, the Appeals Division will conduct an impartial review of the assessment. We will then either confirm or cancel the assessment, or issue a reassessment. We will send you a formal notice of our decision by registered mail.

If you do not agree with our decision on your objection, you can appeal to the Tax Court of Canada.

### Fairness provisions

At times, despite your best efforts, you may not be able to file your return or make your payments on time. In certain circumstances, fairness provisions allow us to waive or cancel all or part of the penalty or interest you owe on outstanding GST/HST payments. There must have been extraordinary circumstances beyond your control that prevented you from filing your GST/HST returns, or making your payments.

Extraordinary circumstances can include:

- natural disasters;
- a postal service strike;
- serious illness, accident, or death in your immediate family; and
- documented delays in receiving information, rulings, or opinions from us.

If you believe your particular circumstances warrant the cancellation of all or part of the penalty and interest you owe, or if you need more information, call **1-800-959-5525**.