



Canada Revenue  
Agency

Agence du revenu  
du Canada

# Guide for Discounters

November 2006

Available electronically only

## Is this guide for you?

If you offer a tax discounting service to your clients, this guide provides you with information about how the Canada Revenue Agency administers the *Tax Rebate Discounting Act*, which regulates the practice of tax discounting.

## What if you need help?

In addition to this guide, we provide information for discounters on our Web site at [www.cra.gc.ca/discounters](http://www.cra.gc.ca/discounters).

This guide explains the most common situations. If you need more help after reading it, or you have changes pertaining to your business (such as a change of address), contact us at:

Tax Filer Services Section  
Canada Revenue Agency  
Place Vanier, Tower C  
25 McArthur Road, 5th floor  
Ottawa ON K1A 0L5

Telephone: 613-941-8864  
613-946-1314  
Fax: 613-941-8868

If you need information about filing an income tax and benefit return, or about a client's refund, read the *General Income Tax and Benefit Guide* or call our individual income tax enquiries service at **1-800-959-8281**.

In this publication, we use the acronym "CRA" to represent the Canada Revenue Agency.

## What's new for 2006?

Effective July 1, 2006, the goods and services tax (GST) rate is reduced to 6% and the harmonized sales tax (HST) rate for Nova Scotia, New Brunswick and Newfoundland and Labrador is reduced to 14%. This change will have an impact on all discounting transactions.

If the software you are using to prepare your RC71 form, *Statement of Discounting Transaction*, has not been updated, you will be required to manually change the GST/HST.

For further information about the calculation of the GST/HST, refer to pages 13 and 14 of this guide, keeping in mind the new rates of 6% for the GST and 14% for the HST.

Effective October 28, 2006, the Saskatchewan provincial sales tax (PST) rate has been reduced to 5%. This will have an impact on discounting transactions in Saskatchewan.

La version française de cette publication est intitulée *Guide de l'escompteur*.

## **Electronic filing (EFILE) of client returns**

EFILE is a system that allows registered tax professionals to send current-year individual tax returns to us, using one of our two methods of electronic transmission:

- EFILE On-Line – allows you to transmit your clients' returns individually over the Internet. You get an acknowledgement of the individual return instantly.
- EFILE On-Line Plus – allows you to transmit from 1 to 60 of your clients' returns at one time over the Internet. When you send a batch of returns, acknowledgement takes only a few hours. You may also obtain, almost instantly, selected information about your clients' account from the System for Electronic Notification of Debt (SEND).

We recommend that you use EFILE to file your clients' returns. It is the fastest way to file returns. Most electronically filed returns are processed within two weeks and have fewer errors than paper returns because they are not data-captured. We process what you transmit.

For more information on EFILE and SEND, visit our Web site at [www.efile.cra.gc.ca](http://www.efile.cra.gc.ca) or contact the EFILE Help Desk at your tax centre. You can find more information on SEND on page 8.

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## Chapter 1 – General information

### What is a discounter?

Discounters prepare tax returns and provide their clients with an immediate discounted tax refund before filing the returns.

Discounters keep part of the expected refund as a fee and pay the rest immediately to their clients. Fees charged are limited by the *Tax Rebate Discounting Act*.

### What is the *Tax Rebate Discounting Act*?

The [\*Tax Rebate Discounting Act\*](#) regulates the practice of tax discounting. Its purpose is to protect the rights and interests of individuals who use discounting services to get their income tax refunds.

Subsection 2(1) defines the term “client” to mean a person from whom a discounter acquires a right to a refund of tax to which that person is entitled. The term “client” used in this guide and on the forms relating to discounters also has the same meaning.

The *Tax Rebate Discounting Act* requires that you, as a discounter, pay the client (at the time the discounting transaction took place) at least:

- 85% of the estimated refund, if it is \$300 or less; or
- \$255 plus 95% of the amount over \$300, if the estimated refund is more than \$300.

The discount includes any fees that you, or another person or company acting for you, may charge for preparing the client’s return or for any other service related to the discounting transaction.

Discounters who pay their clients less than the above-mentioned amounts are guilty of an offence.

### Who is responsible for administering the *Tax Rebate Discounting Act*?

The *Tax Rebate Discounting Act* is a federal act that the CRA administers. Manitoba administers corresponding provincial laws governing discounting. In Quebec, it is illegal to discount refunds of Quebec provincial income tax.

#### Manitoba

The Manitoba Department of Finance administers the regulations governing discounting under the *Manitoba Income Tax Act*. You need proof of provincial registration before we can register you as a new discounter.

Before you start discounting activities in Manitoba, you have to comply with the provincial statutes governing matters such as registration and approval of forms. The prescribed annual registration fee is \$500 plus \$100 for each additional discounting location and must be submitted with your annual registration form.

Income tax returns prepared by discounters are subject to the 7% Manitoba retail sales tax (RST). For more information, see page 17. Manitoba discounters must be in good standing with the Province of Manitoba in order to maintain their discounter code with the Canada Revenue Agency.

For more information, visit the following Web site: [www.gov.mb.ca/finance/tao/trda](http://www.gov.mb.ca/finance/tao/trda) or contact:

Rose-Marie Serceau  
Manitoba Tax Assistance Office  
Manitoba Department of Finance  
Room 809, 386 Broadway  
Winnipeg MB R3C 3R6

Telephone: 204-948-2115  
1-800-782-0771

## **Chapter 2 – How do you become a discounter?**

### **Who can apply?**

All firms, organizations, and financial institutions that want to provide discounting services to members of the public or to their own clientele can apply.

All applications are subject to a review process to ensure the reliability of prospective tax discounters.

We do not issue or reissue a code to a discounter who does not co-operate with us to ensure that the *Tax Rebate Discounting Act*, the Regulations, and the administrative procedures are followed. We will suspend or cancel a code because of a discounter's continuous non-compliance or refusal to co-operate.

### **How do you apply?**

To get a discounter code, you have to complete and send us Form RC75, *Application and Agreement to Obtain a Discounter Code*. This is a one-time application, unless any of the information given on your original application changes. You will have to file a revised application if, for example, your mailing address or other details change. We may also ask you to renew your application to update our records. For more information, contact the Tax Filer Services Section (see page 2).

If your firm or organization has more than one location, each location has to file a separate form. For example, if you have one head office and four branch offices, you have to complete and file five applications. The permanent mailing address for all locations is the same (head office address), but each location has a different operating address.

Your application must be complete, or we will not issue you a discounter code. You must read the "Terms and conditions" on the back of the application, and sign and date the agreement at the bottom of the page. Send the completed and signed form to the Tax Filer Services Section.

An application may take up to 30 days to process. Once we process your application and accept you as a discounter, we will give you an eight-digit discounter code. If you have more than six locations, we may issue you a series of codes.

Please note that we will deactivate any code that is not used for two consecutive years. Contact the Tax Filer Services Section to re-activate the code.

## **Form RC75, *Application and Agreement to Obtain a Discounter Code***

Each of the following steps corresponds to a section on Form RC75. Attach a separate page if you need more space to give information or explain something. It is important to complete all sections of this form.

**Discounter's name as it will appear with every discounted return** – You can use up to 30 characters for this information. You may have to abbreviate your company name.

**Permanent mailing address** – Enter the address where you want us to send correspondence, notices of assessment, and cheques. If you have more than one location, you may want to include a branch or identification number with your permanent address for each location. The permanent address you give on this form has to be identical to the address you will show on each Form RC71, *Statement of Discounting Transaction*, which you will file with all discounted returns.

### **Note**

If your permanent mailing address has changed, make sure to complete a new Form RC75 and send it to the Tax Filer Services Section. If you fail to do so, your notices of assessments or cheques could be sent to an incorrect mailing address.

**Discounting operation address** – Enter the address where the discounting operation takes place. We will not issue a discounting code if you do not complete this section.

**Telephone and fax numbers** – Enter the telephone number(s) where you can be reached during usual business hours on a year-round basis. Also, give your fax number(s), if you have any.

**Discounter's name or legal name of company** – Enter the full legal name of the corporation or partnership, or the name under which a sole proprietorship carries out discounting transactions.

**EFILE number(s)** – If you are an electronic filer, or were an electronic filer in a previous year, enter the EFILE number(s) assigned to you by the EFILE help desk.

**Discounter code(s)** – If you were a discounter in a previous year, enter the discounter code(s) that we assigned to you.

**Business Number(s) (BN)** – Include all Business Numbers of the company or proprietorship.

**Language** – Tell us in which official language you want us to communicate with you.

**Name(s)** – Enter the names of all proprietors, partners, or directors.

**Social insurance number(s) (SIN)** – Enter the social insurance number of all proprietors, partners, or directors. Attach a separate page if you need more space.

**Type of business** – Indicate the type of business you are operating.

**Disclosure** – Indicate whether you give us permission to disclose the name, address, and telephone number of your firm or organization to the public if we are asked for this information.

## **System for Electronic Notification of Debt (SEND)**

SEND, available through the EFILE On-Line Plus electronic transmission method, allows authorized tax professionals and discounters to submit their requests one at a time and receive, almost instantly, selected information about a client's account before filing the return.

For the 2006 tax year, SEND will show if:

- the client is a Home Buyers' Plan participant and may be required to make a repayment for the year;
- the client participates in the Lifelong Learning Plan and may be required to make a repayment for the year;
- the client received social assistance or workers' compensation benefits (T5007);
- the client received Employment Insurance and other benefits (T4E);
- the client received Universal Child Care benefits (RC62);
- the client had a reassessment carried out on a prior-year return between January 1, 2006, and the time the SEND request is submitted;
- the client has a debt owing to the CRA and whether the debt is more or less than \$10;
- the CRA or any other federal, provincial, or territorial government department, agency, or Crown corporation has a claim against any refund to which the client may be entitled, and will identify the source of any such claim;
- the client does not show in the CRA's records;
- the client has already filed a return for the tax year;
- the CRA's records indicate that the client is bankrupt; and
- information on the client's account has previously been requested by another electronic filer through SEND since December 11, 2006.

SEND is not designed to give exact amounts owed to the CRA or to any other federal, provincial, or territorial government department, agency, or Crown corporation programs, or as a means to verify the income sources of any client.

If you need the telephone number for the federal, provincial, or territorial government department, agency, or Crown corporation that has a prior claim to your client's refund, call us at **1-800-959-8281**.

The information provided in the SEND response is based on our records at the time the request is processed. We are not responsible for errors or omissions in the information, or for providing any additional information about the client's debt status.

For each SEND request submitted, you must get a signed Form T1153, *Consent and Request Form*, from your client. We monitor the activities of electronic filers to ensure that they comply with this and other requirements. If an electronic filer does not comply, we will issue warning letters as required and may suspend EFILE and SEND privileges.



To apply for SEND, you must use our **on-line registration** option from our Web site at [www.efile.cra.gc.ca](http://www.efile.cra.gc.ca).

If your firm or organization has more than one location, each location must register separately.

An application may take up to 30 days to process. To give us enough time to review your application before the filing season starts, we encourage you to register before December 31.

Existing EFILE On-Line or EFILE On-Line Plus users may renew their annual participation on-line over the Internet using their EFILE number and password.

For more information on SEND or EFILE, visit our Web site at [www.efile.cra.gc.ca](http://www.efile.cra.gc.ca) or contact the **EFILE Help Desk** at your tax centre.

### **Refund Set-Off Program**

Under the Refund Set-Off Program, tax refunds of individuals may be applied against unrecoverable Crown debts they owe under programs operated by partners in the federal, provincial, and territorial governments, as well as in agencies and Crown corporations.

A client's refundable provincial and territorial tax credits from participating provincial and territorial partners can now also be used to set-off debts to other partners participating in the program.

New debts may be updated on a client's account at any given time. There is usually a grace period to allow the client to pay the debt, during which time we will not process a set-off. This grace period begins when an account is first added to the set-off database. Each partner determines the length of its grace period, which may vary from partner to partner.

There is no grace period for amounts owing to the CRA, such as individual income tax debts or overpayments of federal social benefits and their provincial and territorial equivalents.

### **Family Orders and Agreements Enforcement Assistance (FOA) Program**

The FOA Program provides for garnishing amounts owing to a spouse who sought legal assistance to obtain family support payments. When a client (the debtor's) account has been flagged as FOA, the CRA will direct any funds requested by the Department of Justice Canada to that department, which will in turn remit the funds to the responsible provincial or territorial authority for distribution to the "creditor spouse."

Under the FOA Program, all or part of individuals' tax refunds may be diverted to the Department of Justice Canada to pay debts owed.

The Department of Justice Canada is responsible for determining who should be flagged for FOA activity, and they advise the CRA accordingly. Note that accounts may become flagged for FOA at any time, as directed by the Department of Justice Canada, and no grace period is provided.

## Direct deposit

You can have discounted refunds deposited directly to your account at any financial institution in Canada. There are two direct deposit options available: consolidated payments and individual payments.

- **Consolidated payments option** – If you choose this option, refund amounts from all tax returns that you discounted and that are included in the same processing cycle are credited to your banking account in one total amount.
- **Individual payments option** – If you choose this option, each refund is credited to your account as a separate payment.

If you participate in the direct deposit service, we will send two copies of the client's *Notice of Assessment* to your permanent mailing address. Keep the copy in your files and give the original to the client.

If you wish to start using the direct deposit service, you have to complete Form RC115, *Discounter Direct Deposit Enrolment Request*.

You also have to complete Form RC115 if you want to change the direct deposit banking information we already have on file for your discounter code. **Do not** close your old account before we start depositing payments into your new account.

Make sure that you check the appropriate box when completing this form, and file a separate form for each discounter code used.

Send this form by January 1 of the processing year to:

Tax Filer Services Section  
Canada Revenue Agency  
Place Vanier, Tower C  
25 McArthur Road, 5th floor  
Ottawa ON K1A 0L5

We will process direct deposit forms received after January 1 as quickly as possible. If a request is not updated before we start processing returns, we will send a cheque in the client's name to your permanent mailing address.

## Chapter 3 – Forms and documents

For each discounting transaction, you must complete the following forms:

- Form RC71, Statement of Discounting Transaction
- Form RC72, Notice of the Actual Amount of the Refund of Tax

To avoid delays and prevent refund cheques from being sent to the clients, make sure you use the proper forms and that they are complete, signed, and legible. You must keep these forms for three years.

Since we revise our **publications and forms** periodically, make sure you use the latest versions. You can get these forms from our Web site or by calling **1-800-959-2221**.

If you use a software package to prepare and transmit returns by EFILE, the software package may produce the discounting forms required. Make sure that the electronic forms include all of the information shown on the front and back of our paper forms.

### **Form RC71, *Statement of Discounting Transaction***

Form RC71 provides details of each discounting transaction. There are three copies of the form to be distributed as follows:

- Attach copy 1 to the client's return if you file a paper return. If you use EFILE, keep copy 1 in case we ask to see it.
- Give copy 2 to the client.
- Keep copy 3 in your files.

#### **Note**

If you file your client's return or request adjustments on paper, we suggest that you attach copy 1 (the gold copy) of Form RC71 instead of a software-generated or printed copy of the form.

### **Electronic filing (EFILE) of discounted returns**

If you use EFILE to file discounted returns, the information you enter on the electronic version of Form RC71, which you send with the client's return, should be the same as the information you enter on the paper version of the form.

In other words, the electronic version of the Form RC71 transmitted to the CRA must be an exact copy of the paper version of the Form RC71 which has been signed and dated by the discounter and the client.

Some discrepancies may occur between the two versions. The following situations are the most likely to occur:

- The estimated refund is reduced by a previous debt owing to us. Some tax preparation software packages automatically transcribe the calculated refund, from line 484 of the client's tax return, to box A of Form RC71. If the client has an amount owing to us, the refund shown on line 484 should be reduced by that amount. You must enter the actual amount to be discounted in box A of the electronic version of Form RC71.
- The date in box 14 is different from the date on the electronic version of Form RC71. This happens when you prepare the EFILE return after you complete the paper Form RC71. Make sure that the date on the electronic version is the same as the date on the paper version of Form RC71.

### **How to complete Form RC71**

When completing Form RC71, make sure that all copies, including your file copy, are legible and that you enter the correct figures in the appropriate boxes. Each of the following steps corresponds to a section of Form RC71.

The discounter and the client must sign and date the copy of the Form RC71 provided to the client and the copy you keep on the client's file. You must also give the client a copy of the back of the form.

Enter the tax year of the return being discounted in the top right corner of the form.

**Box 1 – Discounter’s name**

Enter the full name of your firm or organization. The name must be the same as the name shown on Form RC75, *Application and Agreement to Obtain a Discounter Code*.

**Box 2 – Discounter code**

Enter the eight-digit discounter code issued to you. The code must be the one issued to the actual discounting location.

If applicable, the code on the electronic version must be the same code shown on the paper version.

**Box 3 – Permanent mailing address**

Enter your permanent mailing address as shown on Form RC75. **Do not** enter any temporary address you may have.

**Box 4 – Proprietor’s name**

Enter the name of the proprietor, franchise owner, operator, manager, or agent at the permanent mailing address who is responsible for carrying out the discounting transaction at any temporary location.

**Box 5 – Telephone number**

Enter the area code and the telephone number at your business address where we can reach the management of the discounting operation during usual business hours on a year-round basis.

**Box 6 – Client’s name**

Enter the client’s name as it appears on his or her tax return.

**Box 7 – Social insurance number**

Enter the client’s social insurance number.

**Box 8 – Address**

Enter the client’s full mailing address. Give us the client’s address at the time of filing the tax return. The address must **not** be that of the discounter. Your clients should give you their correct address to receive their copy of Form RC72 and their *Notice of Assessment* or *Notice of Reassessment*. You may also need to locate them if they become entitled to any additional amount.

**Box 9 – Telephone number**

Enter the client’s telephone number.

**Box A – Estimated refund amount**

Enter the estimated refund from line 484 of the client’s return. If the client has an amount owing to us, enter the amount from line 484 **minus** the amount owing. See the section called “Client debts owed to us” on page 24. If applicable, make sure the amount

in box A of the electronic version of Form RC71 is the same as the amount shown in box A of the paper version of the form.

**You must discount the full estimated refund amount, you cannot discount on a portion of this amount.**

**Box B – Minimum amount to be paid to the client by the discounter**

On or before the date of the discounting transaction, you must pay the client the minimum amount in cash or by a cheque that is not post-dated. This amount has to be at least:

- 85% of the estimated refund, if it is \$300 or less; or
- \$255 plus 95% of the amount over \$300, if the estimated refund is more than \$300.

Enter the following amounts on the corresponding lines in box B of Form RC71:

- i) the payment owed to the client on the first \$300 of the refund;
- ii) the payment owed to the client on the remaining part of the refund; and
- iii) the minimum amount that you must pay to the client—total of lines i) and ii).

**Box C – Amount owed to the client by the discounter**

Enter the amount you owe the client. The payment could be greater than the amount in box B on line iii) if you choose to pay more than the minimum amount required.

**Note**

The amount entered in box C is the amount before the calculation of any goods and services tax/harmonized sales tax/provincial sales or retail sales tax shown in box D.

**Box D – Goods and services tax (GST), harmonized sales tax (HST), provincial sales tax (PST), or retail sales tax (RST)**

Some clients may choose to pay the GST, HST, PST, or RST in cash, while others will ask that the tax be subtracted from their refund. In either case, the amount in box C must be the amount you owe to the client **before** you deduct the GST, HST, PST, or RST.

**Goods and services tax (GST)**

You must collect from your clients the GST on the amount deemed to be consideration for a taxable supply of a service. The amount that is subject to GST is whichever is less:

- $2/3 \times$  (the estimated refund **minus** the amount you pay to the client); or
- \$30.

The maximum GST that can be charged on a discounting transaction is \$1.80. If the estimated refund **minus** the amount you pay to the client is \$45 or more, enter \$1.80 on the GST line of box D.

If the estimated refund **minus** the amount you pay to the client is less than \$45, multiply  $2/3$  of the difference by 0.06. Enter the result on the GST line of box D.

**Example 1**

|                                     |            |
|-------------------------------------|------------|
| Estimated refund                    | \$ 500     |
| <b>Minus:</b> Payment to the client | <u>445</u> |
| Difference                          | \$ 55      |

Since the difference is more than \$45, enter \$1.80 on the GST line of box D.

**Example 2**

|                                     |            |
|-------------------------------------|------------|
| Estimated refund                    | \$ 200     |
| <b>Minus:</b> Payment to the client | <u>170</u> |
| Difference                          | \$ 30      |

Since the difference is less than \$45, calculate the GST as follows:

$$(\$30 \times 2/3) \times 0.06 = \$1.20$$

Enter \$1.20 on the GST line of box D.

If you have any questions about the GST, contact us at **1-800-959-5525**.

In Quebec, contact the Ministère du Revenu du Québec, which is responsible for administering the GST in that province.

**Harmonized sales tax (HST)**

Nova Scotia, New Brunswick, and Newfoundland and Labrador have harmonized their provincial retail sales tax with the GST. The current HST rate is 14%.

You must collect from your clients the HST on the amount deemed to be consideration for a taxable supply of a service. The amount that is subject to HST is whichever is less:

- $2/3 \times$  (the estimated refund **minus** the amount you pay to the client); or
- \$30.

The maximum HST that can be charged on a discounting transaction is \$4.20. If the estimated refund **minus** the amount you pay to the client is \$45 or more, enter \$4.20 on the HST line of box D.

If the estimated refund **minus** the amount you pay to the client is less than \$45, multiply  $2/3$  of the difference by 0.14. Enter the result on the HST line of box D.

**Example 1**

|                                     |            |
|-------------------------------------|------------|
| Estimated refund                    | \$ 500     |
| <b>Minus:</b> Payment to the client | <u>445</u> |
| Difference                          | \$ 55      |

Since the difference is more than \$45, enter \$4.20 on the HST line of box D.

**Example 2**

|                                     |            |
|-------------------------------------|------------|
| Estimated refund                    | \$ 200     |
| <b>Minus:</b> Payment to the client | <u>170</u> |
| Difference                          | \$ 30      |

Since the difference is less than \$45, calculate the HST as follows:

$$(\$30 \times 2/3) \times 0.14 = \$2.80$$

Enter \$2.80 on the HST line of box D.

**Note**

The CRA publication [Memorandum 17.10](#), *Tax Discounters*, of the GST/HST Memoranda Series provides more information on tax discounters and their GST/HST entitlements and obligations. However, please note that, effective July 1, 2006, the GST rate is reduced to 6% and the HST rate for Nova Scotia, New Brunswick, and Newfoundland and Labrador is reduced to 14%.

**Provincial sales tax (PST)**

In Prince Edward Island (PEI), Quebec, and Saskatchewan, PST applies to discounting services. Discounters in all provinces should check with their provincial revenue or finance department regarding legislative changes, such as those announced in a budget, that could result in changes to provincial tax rates and in how these apply to discounting services.

**PEI sales tax** – In Prince Edward Island, PST applies to accounting services, which include tax return preparation. The PEI sales tax rate is 10% and is applied to the GST-included price of tax return preparation services.

The maximum PEI sales tax that can be charged on a discounting transaction is \$3.18, because the maximum a discounter can charge for preparing a tax return is \$30.

If the estimated refund **minus** the amount you pay to the client is \$45 or more, enter \$3.18 on the PST line of box D.

If the estimated refund **minus** the amount you pay to the client is less than \$45, use the following formula to calculate the PEI sales tax:

$2/3 \times$  (the estimated refund **minus** the amount you pay to the client) plus the GST charged on the transaction, multiplied by 0.10.

**Example 1**

|                                     |            |
|-------------------------------------|------------|
| Estimated refund                    | \$ 500     |
| <b>Minus:</b> Payment to the client | <u>445</u> |
| Difference                          | \$ 55      |

Since the difference is more than \$45, enter \$3.18 on the PST line of box D.

**Example 2**

|                                     |            |
|-------------------------------------|------------|
| Estimated refund                    | \$ 200     |
| <b>Minus:</b> Payment to the client | <u>170</u> |
| Difference                          | \$ 30      |

Since the difference is less than \$45, calculate the PEI sales tax as follows:

$$\$30 \times 2/3 = \$20$$

$$\$20 + \$1.20 \text{ (GST)} = \$21.20$$

$$\$21.20 \times 0.10 = \$2.12$$

Enter \$2.12 on the PST line of box D.

**Quebec sales tax (QST)** – The QST rate is 7.5% and is applied on the GST-included price of discounting services.

The maximum QST that can be charged on a discounting transaction is \$2.39. If the estimated refund **minus** the amount you pay to the client is \$45 or more, enter \$2.39 on the PST line of box D.

If the estimated refund **minus** the amount you pay to the client is less than \$45, use the following formula to calculate the QST:

$2/3 \times$  (the estimated refund **minus** the amount you pay to the client) plus the GST charged on the transaction, multiplied by 0.075.

**Example 1**

|                                     |            |
|-------------------------------------|------------|
| Estimated refund                    | \$ 500     |
| <b>Minus:</b> Payment to the client | <u>445</u> |
| Difference                          | \$ 55      |

Since the difference is more than \$45, enter \$2.39 on the PST line of box D.

**Example 2**

|                                     |            |
|-------------------------------------|------------|
| Estimated refund                    | \$ 200     |
| <b>Minus:</b> Payment to the client | <u>170</u> |
| Difference                          | \$ 30      |

Since the difference is less than \$45, calculate the QST as follows:

$$\$30 \times 2/3 = \$20$$

$$\$20 + 1.20 \text{ (GST)} = \$21.20$$

$$\$21.20 \times 0.075 = \$1.59$$

Enter \$1.59 on the PST line of box D.

**Saskatchewan sales tax** – Effective October 28, 2006, the Saskatchewan sales tax is 5% and is applied before the GST is added.

The maximum PST that can be charged on a discounting transaction is \$1.50.

If the estimated refund **minus** the amount you pay to the client is \$45 or more, enter \$1.50 on the PST line of box D.

If the estimated refund **minus** the amount you pay to the client is less than \$45, use the following formula to calculate the Saskatchewan sales tax:

$2/3 \times$  (the estimated refund **minus** the amount you pay to the client) multiplied by 0.05.



**Example 1**

|                                     |            |
|-------------------------------------|------------|
| Estimated refund                    | \$ 500     |
| <b>Minus:</b> Payment to the client | <u>445</u> |
| Difference                          | \$ 55      |

Since the difference is more than \$45, enter \$1.50 on the PST line of box D.

**Example 2**

|                                     |            |
|-------------------------------------|------------|
| Estimated refund                    | \$ 200     |
| <b>Minus:</b> Payment to the client | <u>170</u> |
| Difference                          | \$ 30      |

Since the difference is less than \$45, calculate the PST as follows:

$$\$30 \times 2/3 = \$20$$

$$\$20 \times 0.05 = \$1.00$$

Enter \$1.00 on the PST line of box D.

**Retail sales tax (RST)**

In Manitoba, RST applies to discounting services. Discounters in Manitoba should check with the provincial finance department regarding legislative changes, such as those announced in a budget, that could result in changes to provincial tax rates and in how these apply to discounting services.

**Manitoba retail sales tax** – The Manitoba retail sales tax rate is 7% and is applied before the GST is added.

The maximum RST that can be charged on a discounting transaction is \$2.10.

If the estimated refund **minus** the amount you pay to the client is \$45 or more, enter \$2.10 on the RST line of box D.

If the estimated refund **minus** the amount you pay to the client is less than \$45, use the following formula to calculate the Manitoba retail sales tax:

$$2/3 \times (\text{the estimated refund } \mathbf{minus} \text{ the amount you pay to the client}) \text{ multiplied by } 0.07.$$

**Example 1**

|                                     |            |
|-------------------------------------|------------|
| Estimated refund                    | \$ 500     |
| <b>Minus:</b> Payment to the client | <u>445</u> |
| Difference                          | \$ 55      |

Since the difference is more than \$45, enter \$2.10 on the RST line of box D.

**Example 2**

|                                     |            |
|-------------------------------------|------------|
| Estimated refund                    | \$ 200     |
| <b>Minus:</b> Payment to the client | <u>170</u> |
| Difference                          | \$ 30      |

Since the difference is less than \$45, calculate the RST as follows:

$$\$30 \times 2/3 = \$20$$

$$\$20 \times 0.07 = \$1.40$$

Enter \$1.40 on the RST line of box D.

**Box E – Amount payable to the client**

Enter the amount you owe the client from box C **minus** the total taxes owing in box D.

**Box F – The discount**

The cost to the client of the discounting transaction is called the discount. It is the estimated refund **minus** the amount owed to the client before taxes (box A **minus** box C).

The discount must not be more than 15% of the first \$300 of the estimated refund, plus 5% on the remaining amount.

**Box 10 – Discounter's signature**

This must be your signature, or the signature of a person you authorized to carry out the discounting transaction.

**Box 11 – Discounter's name**

Print the name of the person who signed in box 10.

**Box 12 – Location**

Enter the name of the municipality where the discounting transaction took place.

**Box 13 – Date**

Enter the date on which you or an authorized person acquired the right to the refund and paid the minimum amount.

**Box 14 – Date**

Enter the date the client signs Form RC71. The date on the paper and electronic versions of Form RC71 must be the same and must be the date on which you paid the client.

**Line 15 – Client's signature**

This must be the client's signature. **Do not** ask the client to sign until you can pay the required amount and give the client a copy of Form RC71. **A client's signature on this line is not considered a proof of payment.**

**Line 16 – Client's name**

The client must print his or her full name in this box.

**Line 17 – Location**

Enter the name of the municipality where the discounting transaction took place.

### **What if the client provides new information after his or her tax return is filed?**

If the client provides new information that changes his or her return, an adjustment is required to the return. If you discount an additional refund resulting from the adjustment to the return, complete a new Form RC71. Write "Additional information" in the blank box at the top of the form.

The amount in box A must reflect only the amount of the additional refund. However, you have to consider the initial discounted refund when you calculate the discount on the additional refund, since they are both for the same tax year. If the initial discounted refund was \$300 or more, you must pay the client 95% of the additional refund.

#### **Example**

##### **Initial discounted refund:**

|                                     |                       |            |
|-------------------------------------|-----------------------|------------|
| Estimated refund                    |                       | \$1,000    |
| <b>Minus:</b> Payment to the client |                       |            |
|                                     | $\$300 \times 85\% =$ | \$255      |
|                                     | $\$700 \times 95\% =$ | <u>665</u> |
|                                     |                       | 920        |
| Discount                            |                       | \$ 80      |

##### **New discounted refund:**

New information is filed, which results in an additional refund of \$500.

Pay the client:  $\$500 \times 95\% = \$475$

You cannot pay the client 85% on the first \$300 of the additional refund, since you already paid 85% on the first \$300 of the initial refund for the same tax year.

### **What if the client provides new information before his or her tax return is filed?**

If the client provides new information that changes his or her return before it is filed, you will have to prepare another Form RC71 to discount this additional information and pay the client. The amount in Box A must reflect only the additional refund amount. However, you have to consider the initial discounted refund when you calculate the discount on the additional refund, since they are both for the same tax year. If the initial discounted refund was \$300 or more, you must pay the client 95% of the additional refund.

When electronically filing the Form RC71, ensure that you transmit the total of the two RC71 forms.

### **Form RC72, Notice of the Actual Amount of the Refund of Tax**

You have to inform the client of the actual amount of the refund you received from us using Form RC72 as soon as you receive the *Notice of Assessment*. If the actual refund, **minus** any refund interest, is greater than the estimated refund by \$10 or more, you have to pay this amount to the client within 30 days of receiving the refund.

If you have made all reasonable efforts, but cannot locate and pay the client within 30 days, you must return the excess amount to the tax centre within 30 days of receiving the refund. If the client's copy of Form RC72 is returned to you by the post office, keep it

in your files in case the client asks for it at a later date and as proof of your attempt to provide the form to your client.

If, after returning an excess amount to us, you locate the client or the client contacts you, tell the client to write to the Revenue Processing Section of the tax centre where you remitted the excess amount.

### **Purpose of Form RC72**

Form RC72 is used to notify the client of the actual amount of the refund and to help us process excess amounts. Complete this form as soon as you receive a *Notice of Assessment* or *Notice of Reassessment*, refund cheque, or payment. You have to complete this form for every return you discounted, regardless of the amount of the refund or the difference between the actual and estimated refund.

Form RC72 has three copies to be distributed as follows:

- Send copy 1 to us when you cannot pay the client any excess amount and you are sending us a cheque made payable to the Receiver General.
- Give copy 2 to the client to notify him or her of the actual amount of the refund you received and any excess.
- Keep copy 3 in your files.

### **Excess payments held in trust by you**

Any excess refund owing to the client is considered to be held in trust for the client by you until you pay the client or return it to us. You should inform your financial institution that you will be holding funds in trust from time to time. The institution may have specific requirements for handling trust funds.

### **How to complete Form RC72**

When completing Form RC72, make sure that all copies, including your file copy, are legible. Each of the following steps corresponds to a section on Form RC72.

#### **Box 1 – Client's name**

Enter the client's name exactly as shown in box 6 of Form RC71.

#### **Box 2 – Social insurance number**

Enter the client's social insurance number as shown in box 7 of Form RC71.

#### **Box 3 – Discounter code**

Enter the eight-digit discounter code issued to you for the actual discounting location where the transaction took place. The code must be the same as shown on the paper version and, if applicable, the electronically filed version of Form RC71.

#### **Box 4 – Client's address**

Enter the client's address as shown in box 8 of Form RC71, or the new address if the client has moved.

**Box 5 – Tax year**

Enter the tax year of the discounted return.

**Box 6 – Discounter's name**

Enter your name as shown in box 1 of Form RC71.

**Box 7 – Discounter's permanent mailing address**

Enter your permanent mailing address as shown in box 3 of Form RC71, or the new address if your business has moved.

**Box A**

Enter the actual amount of the refund received from the Receiver General.

**Box B**

Enter the estimated refund from box A of Form RC71.

**Note**

Complete boxes C, D, and E only if the actual refund is more than the estimated refund.

**Box C**

Enter the **difference** between the amount in box A and the amount in box B. This is the difference between the actual and the estimated refund.

**Box D**

Enter the amount of the refund interest as shown on the *Notice of Assessment* or *Notice of Reassessment*. In most circumstances, you are allowed to keep the refund interest.

**Box E**

Enter the **difference** between the amount in box C and the amount in box D. If this amount is \$10 or more, you have to pay it to the client. If the amount is less than \$10, you can keep it or pay it to the client.

**Box 8 – Discounter's signature**

This must be your signature, or the signature of a person you authorized to carry out the discounting transaction.

**Box 9 – Discounter's name**

Print the name of the person who signed in box 8.

**Box 10 – Date**

Enter the date you or your representative signed this form, paid the excess to the client if applicable, and sent a copy to the client.

### **Box 11 – Location**

Enter the name of the municipality where you or your representative signed this form.

### **What if you receive an additional refund?**

After you have received the first refund and sent the required Form RC72 to the client, you may receive an additional refund cheque or a *Notice of Reassessment*. This could happen for one of the following reasons:

- a return for the present or a previous year is reassessed;
- the client has not filed a return in a previous year; or
- you have filed additional information using Form RC71.

In all cases, you have to file a new Form RC72.

If the additional refund cheque results because you filed additional information (third reason above), complete Form RC72 in the usual way. If it results from the first or second situation, complete the form in the usual way except for the following steps:

- enter the amount of the additional refund in box A;
- enter \$0 in box B, since there is no Form RC71 and no estimated refund;
- enter the amount from box A in box C (box A **minus** box B, where box B is 0); and
- enter the amount of the refund interest shown on the *Notice of Assessment* or *Notice of Reassessment* in box D.

### **Notice of Assessment or Notice of Reassessment**

You have to give the original *Notice of Assessment* or *Notice of Reassessment* to the client as soon as you receive it. You have to keep a copy of the notice, along with all other discounting documents, in your files for three years.

The *Notice of Assessment* is provided to you for the sole purpose of administering the *Tax Rebate Discounting Act*. Any discounter who uses a client's *Notice of Assessment* for any other purposes is guilty of an offence and may be charged under subsection 239(2.21) of the *Income Tax Act*.

### **Auditing discounters' records**

We may ask you to provide documents or proof of payments to make sure that you are following all the requirements of the *Tax Rebate Discounting Act*. We may make this request in writing, by telephone, or by visiting your place of business. We may also contact your clients to make sure they are receiving the payments and information to which they are entitled.

You have to send Form RC71, *Statement of Discounting Transaction*, and Form RC72, *Notice of the Actual Amount of the Refund of Tax*, and any other documents requested to the Tax Filer Services Section (see page 2) within the time frame we indicate. **Do not** send the forms to the provincial administrator, a tax services office, or a tax centre. You are responsible for the cost of sending the documents to us. If you have more than one discounter code, sort the forms in alphabetical order, by discounter code number, before

sending them to us. Send original forms—we do not accept photocopies. **Do not** fold the forms.

**Proof of payment** – If you **pay your clients in cash**, ask them to sign and date a receipt for the amount received. Such a receipt is your proof of payment.

If you **pay your clients by cheque**, the cancelled cheques they endorse are your proof of payment. We will not accept banking statements as proof of payment. The Canadian Payments Association is working with the financial institutions on a national, industry-wide cheque imaging initiative to modernize the cheque clearing system in Canada. The new process will be based on the financial institutions exchanging images of both the front and back of cheques, rather than sending the physical cheques, as is currently done. The CRA will accept these images as proof of payment. It is anticipated that development will be completed in 2007 and the image-based clearing will be implemented in 2008. We suggest you contact your financial institution to see how this will affect your business.

### **Record-keeping requirements and destruction of records**

You must keep records of all discounting transactions for three years after they took place. You are responsible for disposing of all documents properly to protect your clients' confidentiality.

## **Chapter 4 – General guidelines**

### **Acquiring the right to a refund**

You must pay the client the minimum amount in box B on line iii) of Form RC71 before you ask him or her to sign this form or any other form that would give you the right to get a refund.

However, you can get authorization from your client to investigate background information before paying the minimum amount. To get this authorization, have your client sign Form T1153, *Consent and Request Form*. No other form is acceptable, and only the client information listed on the form will be disclosed. You must keep Form T1153 on file for three years after the end of the tax year in which it was signed, even if you did not discount the client's return.

You must follow all provincial and territorial regulations regarding contracts.

We will make all tax refund cheques and individual direct deposits in the client's name. We will show your name as part of the address on the *Notice of Assessment* or *Notice of Reassessment*.

Contact your financial institution to find out what documents they need to allow you to cash your clients' payments.

### **What if the actual refund is less than the estimated refund?**

If the actual refund of tax is less than the estimated refund, any repayment you request from the client cannot result in the client receiving less than the minimum payment. Also, when determining the amount you can collect from the client, you have to include any refund interest we paid in the amount of the actual refund.

Calculate the amount you have to collect from the client as shown in the following example:

**Example**

|  |         |
|--|---------|
| Estimated refund                                       | \$1,200 |
| Payment to the client                                  | \$1,110 |
| Actual refund received (includes \$10 refund interest) | \$ 500  |

Form RC72:

|                         |                |
|-------------------------|----------------|
| Box A: Actual refund    | \$ 500         |
| Box B: Estimated refund | <u>\$1,200</u> |
| Difference              | (\$ 700)       |

You cannot request \$700 (the **difference** between box A and box B) from the client, since this would result in the client receiving less than the minimum amount on the actual refund of \$500. You have to pay the minimum amount based on the actual refund received of \$500. This amount is calculated as follows:

|                |                       |              |
|----------------|-----------------------|--------------|
| Minimum amount | $\$300 \times 85\% =$ | \$255        |
|                | $\$200 \times 95\% =$ | <u>\$190</u> |
|                |                       | \$445        |

Since you have already paid the client \$1,110 based on the estimated refund, the amount you can now collect from the client is \$665 calculated as follows:

|   |            |
|---|------------|
| Payment to the client based on the estimated refund                                     | \$1,110    |
| <b>Minus:</b> Minimum amount the client can receive based on the actual refund of \$500 | <u>445</u> |
| Amount you can collect from the client  | \$ 665     |

This calculation does not apply in situations where the actual refund is less than the estimated refund because we used part of the refund to pay the client’s debt to the Crown (such as student loans, overpayments of Employment Insurance benefits, or garnishments under the *Family Orders and Agreements Enforcement Assistance Act*). In this situation, you can collect from the client the amount of the refund that we used to pay his or her debt.

**Client debts owed to us**

If you are aware of a client’s debt to us when you acquire the right to the client’s refund, you have two options for the amount you enter in Box A, “Estimated refund amount,” on Form RC71. Use this amount when calculating the minimum amount to pay the client and the discount.

**Option 1: The amount from line 484 of the client’s tax return minus the debt**

**Example**

|                                   |            |
|-----------------------------------|------------|
| Estimated refund                  | \$1,200    |
| <b>Minus:</b> Client’s debt to us | <u>500</u> |
| Net estimated refund              | \$ 700     |

Calculate the client’s payment on the net estimated refund of \$700.



## Option 2: The amount from line 484

If you choose this option, you must arrange to pay the debt before filing the tax return. Then calculate the minimum amount to pay to the client on the estimated refund (\$1,200 in the above example). If you choose this option, we cannot guarantee that the payment for the client's debt will have been processed by the time we assess the client's return.

## Completing a client's return

We will send the client's *Notice of Assessment* to your permanent mailing address as shown on Form RC75, *Application and Agreement to Obtain a Discounter Code*.

If you use EFILE to file your client's return, make sure that you enter your client's current address when transmitting the return to us for processing. **Do not** enter your own address in the identification area when transmitting the return.

If you are filing a paper return for your client, complete the client's current address in the space given on page 1 of the return or, if available, attach the client's personal label. If the client's name, address, social insurance number (SIN), or the spouse's or common-law partner's SIN on the personal label is incorrect, put a line through the wrong information, and clearly print the changes on the label. **Do not** enter your own address in the identification area of your client's return.

We will send all refunds from discounted returns to you. However, there may be instances when we send a discounted refund to a client in error. If this happens, you have to get the refund back from the client, as stated in subsection 2(3) of the *Tax Rebate Discounting Act*:

"A right to a refund of tax acquired by a discounter from a client is enforceable only between the client and the discounter and nothing in this Act shall be construed as creating any liability between the discounter and Her Majesty."

## Requesting adjustments

If you receive a refund that is less than the estimated refund, you can submit information to reinstate the estimated refund in whole or in part. Include a photocopy of the original Form RC71 with your request for adjustment. Print "Additional information" in the blank box at the top of the form.

You must include a new Form RC71 (with "Additional information" printed in the blank box at the top of the form) with your request for adjustment if the client submits new information resulting in an additional refund that he or she wishes to discount and if:

- the actual refund received (excluding refund interest) equals or exceeds the expected refund; or
- the refund has not yet been received. See the section called "What if the client provides new information after his or her tax return is filed?" on page 19.

We will send the *Notice of Reassessment* or any resulting refund to the client if Form RC71 is not included with your request for adjustment.

Do not delay providing the Form RC72 and *Notice of Assessment* to the client while waiting for the reassessment.

## **Discounter code on a client's return**

If you use EFILE to file your client's return, enter your discounter code before transmitting the return to us for processing.

If you are filing a paper return for your client, enter and highlight "Disc. code no." and your discounter code to the right of the pre-printed word "Identification" at the top left corner of page 1 of the client's tax return.

If you do not enter your discounter code on the return, we may direct the *Notice of Assessment* or the refund to the client.

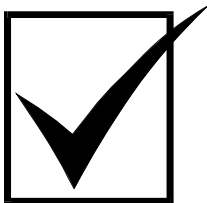
## **Fraudulent discounted returns**

To protect your interests and the integrity of our tax system, take proper care to verify the identity of your client. Ensure your client has documents such as information slips and receipts to support all income, deductions, and credits reported or claimed on the return. Verify the authenticity of these information slips before conducting financial transactions.

## **Authorization to represent your client**

We will only release confidential client information if the client has given you written authorization to represent him or her in matters related to the *Income Tax Act*. For more information, call our individual income tax enquiries at **1-800-959-8281**.

# ***Your opinion counts!***



We review our publications every year. If you have any comments or suggestions that would help us improve them, we would like to hear from you.

Please send your comments to:

**Taxpayer Services Directorate  
Canada Revenue Agency  
750 Heron Road  
Ottawa ON K1A 0L5**