

# GST/HST Info Sheet

## ABM Services

December 2006

This info sheet replaces the previous version dated September 2004.

This info sheet discusses the application of the goods and service tax/harmonized sales tax (GST/HST) to services received by a cardholder and services related to shared cash dispensing using automated bank/teller machines (ABMs). Shared cash dispensing allows a person to obtain cash or a cash advance using a debit, credit or charge card from ABMs not owned by the person's financial institution.

In this info sheet, "taxable" means subject to GST/HST at 6% or 14%, "exempt" means not subject to GST/HST, and "registrant" means a person who is registered or has to be registered for GST/HST purposes.

Financial services related to shared cash dispensing transactions in Canada are usually exempt. Please note that certain supplies of financial services provided by financial institutions to non-residents may be zero-rated (i.e., taxable at a rate of 0%).

The following persons are involved in shared cash dispensing:

- a **card issuer** is a financial institution that is a member of a payment network, such as the Interac Association. It maintains accounts and issues debit, credit or charge cards to its customers. These cards can be used to access cardholder accounts to withdraw cash at ABMs connected to a network;

- a **cardholder** is a customer of a card issuer who accesses his or her account to withdraw cash at an ABM;
- an **acquirer** is a member of a payment network that is connected to the network. An acquirer may or may not be a financial institution; and
- a **card acceptor** is a person who operates an ABM that accepts the card issued by the card issuer and dispenses cash to a cardholder. A card acceptor may also be an acquirer, an independent sales organization, or a merchant.

In some cases, the following persons may also be involved in shared cash dispensing:

- an **independent sales organization (ISO)** is a person, other than an acquirer, who markets or sells services on behalf of an acquirer for ABMs it has sold or leased to card acceptors (e.g., merchants);
- a **merchant** is a person who has purchased or leased an ABM for use in its business and who is a card acceptor; and
- a **downstream merchant** is a person, other than a card acceptor, who houses an ABM of another person in its establishment. A downstream merchant may also provide additional goods or services since the ABM is located on its premises.

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La version française du présent document est intitulée *Services se rattachant aux guichets automatiques bancaires*.

Canada

Note that there may be other parties involved in a particular shared cash dispensing transaction, and the same person may perform more than one role.

**Exempt cardholder fees**

A cardholder may incur the following charges when using an ABM:

- a surcharge fee, for withdrawing cash from the ABM. This is a financial service; and
- a fee charged by the financial institution, for the service of operating or maintaining the cardholder's account. This is also a financial service.

**Exempt interchange fees**

A card issuer pays an acquirer an interchange fee for each completed shared cash dispensing transaction. Where an acquirer is also the card acceptor, the interchange fee is an amount paid by a card issuer to the acquirer for the service of dispensing cash from an ABM to a cardholder (see scenario 1). This is a financial service.

Where an acquirer is not the card acceptor, the interchange fee is an amount paid by a card issuer to the acquirer for the service of agreeing to dispense cash to a cardholder. In this situation, the acquirer may enter into an agreement with an ISO and/or another card acceptor to dispense cash to the cardholder on behalf of the acquirer (see scenarios 2, 3 and 4). This is a financial service.

**Taxable services**

It is important to note that, apart from interchange fees, there may be payments in respect of other services provided for under agreements between any of the parties involved in the cash dispensing process, and these payments may be taxable for GST/HST purposes. For example, an acquirer or an ISO may provide services to a card acceptor, such as initial setup and certification of connection to a network, technical support for software and hardware related to ABMs, operation and maintenance services related to ABMs, or marketing services. These services are generally taxable for GST/HST purposes and the supplier, if a registrant, is required to collect and account for tax in respect of such services.

GST/HST applies on the total consideration payable for taxable supplies. A registrant is required to collect and account for tax calculated on the entire amount payable for a taxable supply, before any set-off or netting of amounts payable or receivable by the registrant under the same or another agreement. The set-off or netting of amounts payable or receivable often occurs where two parties make supplies to each other. For example, in scenario 2, there may be a set-off of amounts between the acquirer and the card acceptor, as the card acceptor provides services to the acquirer and vice versa (see also scenarios 3 and 4).

**Supplies made by a downstream merchant**

An acquirer, ISO or merchant that is a card acceptor may, in some cases, acquire space or a location for an ABM provided by a downstream merchant (refer to the diagrams). Under that agreement, the downstream merchant may also be responsible for electricity, telephone lines, replenishing money in the ABM, etc.

The downstream merchant receives consideration for these supplies (which are generally taxable) from the acquirer, ISO or merchant who acquired the space for the ABM. The basis for calculating the consideration may vary. For example, consideration may be a specific amount per month, an amount calculated according to the number of transactions, or a combination of these two methods. The method of calculating the consideration will not affect the tax status of a supply. A downstream merchant who is a registrant must collect GST/HST on the total consideration for such a taxable supply.

**Input tax credit rules**

“Input tax credits” are credits that registrants can claim to recover GST/HST they pay or owe for property or services they acquire, import into Canada, or bring into a participating province for use, consumption, or supply, in the course of their commercial activities.

**Input tax credits related to operating expenses (non-capital property and services)**

Examples of non-capital property or services for which an input tax credit may be claimed include commercial rent, equipment rentals, advertising, utilities and office supplies.

The general rules for claiming input tax credits for non-capital property or services are as follows:

- if a registrant intends to use at least 90% of non-capital property or a service in commercial activities (i.e., the making of taxable supplies), the registrant may claim an input tax credit for the full amount of GST/HST paid or payable by the registrant in respect of the operating expense;
- if a registrant intends to use at least 90% of non-capital property or a service in an exempt activity (e.g., the making of exempt financial services), the registrant cannot claim an input tax credit for GST/HST paid or payable by the registrant in respect of the operating expense; and
- if a registrant makes both taxable and exempt supplies and intends to use less than 90% (but more than 10%) of non-capital property or a service in commercial activities, the registrant may only claim an input tax credit for GST/HST paid or payable by the registrant to the extent that the non-capital property or service is for use in commercial activities. If no more than 10% of non-capital property or a service relates to the registrant's commercial activities, no input tax credit may be claimed.

A registrant that is a financial institution must use 100% of non-capital property or a service in commercial activities to be eligible to claim a full input tax credit. However, a financial institution may claim a partial input tax credit based on the extent of use of the non-capital property or service in its commercial activities, even where the financial institution uses less than 10% of the non-capital property or service in its commercial activities.

#### **Input tax credits related to capital personal property**

The meaning of capital property, for GST/HST purposes, is generally the same as that for income tax purposes. An ABM that a person owns and uses in their business is an example of capital personal property.

The general rules for claiming input tax credits for capital personal property are as follows:

- if a registrant uses the capital personal property 50% or less in commercial activities, the registrant cannot claim an input tax credit; and

- if a registrant uses the capital personal property primarily (more than 50%) in commercial activities, the registrant may claim a full input tax credit.

A registrant that is a financial institution claims its input tax credit for capital personal property based on the actual extent of use of the property in commercial activities.

Some of the persons listed on page 1 of this info sheet who are involved in shared cash dispensing, such as card issuers and acquirers, are or may be financial institutions.

For more information on input tax credits and the financial services sector, refer to GST Memorandum 700-5-1, *ITC Allocation for Financial Institutions*.

#### **Lease, sale or purchase of ABMs**

GST/HST will generally apply to the sale or lease of an ABM by a registrant. However, GST/HST will not apply to the sale of a used ABM by a registrant that used it only to make exempt supplies, e.g., to provide ABM services such as cash withdrawals and cash advances.

A registrant who leases or purchases an ABM and only uses it to make exempt supplies of financial services cannot claim an input tax credit for GST/HST paid or payable in respect of the lease or purchase of the ABM.

On the other hand, a registrant who purchases an ABM for resale or lease can generally claim an input tax credit for GST/HST paid or payable in respect of the purchase (refer to the previous section on input tax credits).

#### **Cash dispensing arrangements**

The following scenarios illustrate how various persons may be involved in dispensing cash to a cardholder. These scenarios are based on the assumption that all parties to the transactions are residents of Canada, and the suppliers are registrants.

**Scenario 1 — Acquirer is the card acceptor**

Diagram 1 provides an example of services that may be supplied and payments that may be made where an acquirer is the card acceptor.

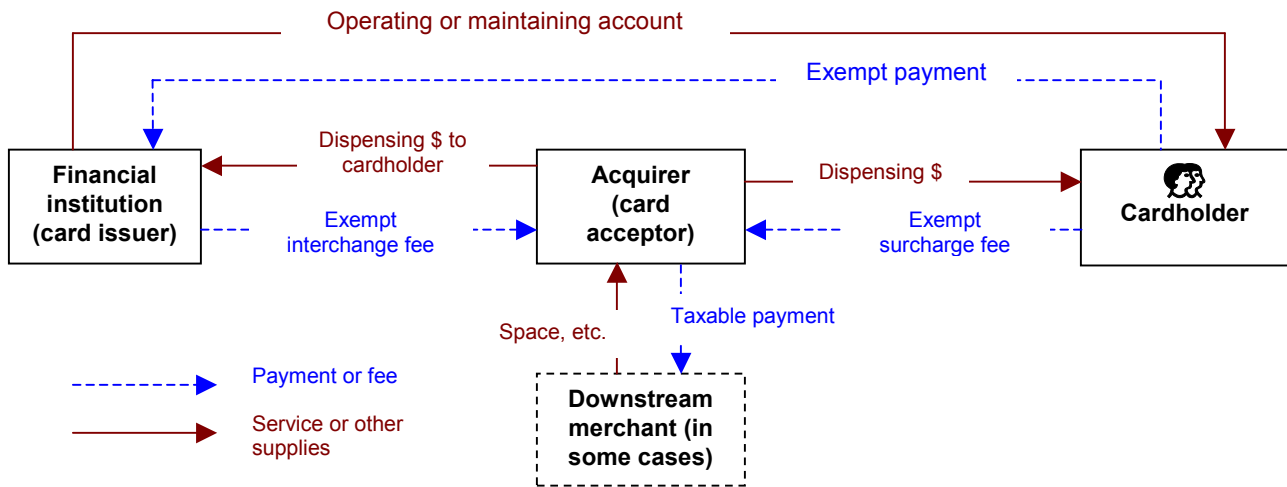
The acquirer receives an interchange fee from the card issuer for dispensing cash from the ABM to a cardholder. The service provided by the acquirer to the card issuer, in exchange for the interchange fee, is an exempt financial service and the acquirer does not collect GST/HST on this supply.

The acquirer also receives a surcharge fee, debited from the cardholder’s account for dispensing cash from the

ABM to the cardholder. The service provided by the acquirer to the cardholder, in exchange for the surcharge fee, is an exempt financial service and the acquirer does not collect GST/HST on this supply.

The acquirer may make taxable purchases, such as the purchase of an ABM, payments for ABM maintenance, payments to a downstream merchant for housing the ABM, or payments for providing electricity and telephone lines. The acquirer cannot claim input tax credits for GST/HST paid or payable in respect of these taxable purchases to the extent that they relate to the making of exempt supplies of financial services.

**Diagram 1**



- Card issuer pays acquirer interchange fee for dispensing cash to the cardholder – supply of exempt financial service.
- Cardholder may pay acquirer a surcharge fee for dispensing cash – supply of exempt financial service.
- Acquirer makes taxable purchases (e.g., money replenishing service, ABM service/maintenance and utilities) that, in some cases, may include payment to a downstream merchant for housing the ABM.
- Acquirer cannot claim input tax credits for GST/HST paid or payable on taxable purchases if these relate to exempt supplies of financial services.

**Scenario 2 — ISO is the card acceptor**

Diagram 2 provides an example of services that may be supplied and payments that may be made where an ISO is the card acceptor. An ISO that is not a member of a payment network generally enters into an agreement with an acquirer for services.

In this situation, the acquirer receives an interchange fee from the card issuer for agreeing to dispense cash to a cardholder. The service provided by the acquirer to the card issuer, in exchange for the interchange fee, is an exempt financial service and the acquirer does not collect GST/HST on this supply.

The ISO receives a payment from the acquirer (derived from the interchange fee paid by the card issuer to the acquirer) for dispensing cash from the ABM to the

cardholder. The service provided by the ISO to the acquirer, in exchange for this payment, is an exempt financial service and the ISO does not collect GST/HST on this supply.

The ISO also receives a surcharge fee debited from the cardholder’s account for dispensing cash from the ABM to the cardholder. The service provided by the ISO to the cardholder in exchange for the surcharge fee is an exempt financial service and the ISO does not collect GST/HST on this supply.

Under the agreement between the acquirer and the ISO, the acquirer may make taxable supplies to the ISO.

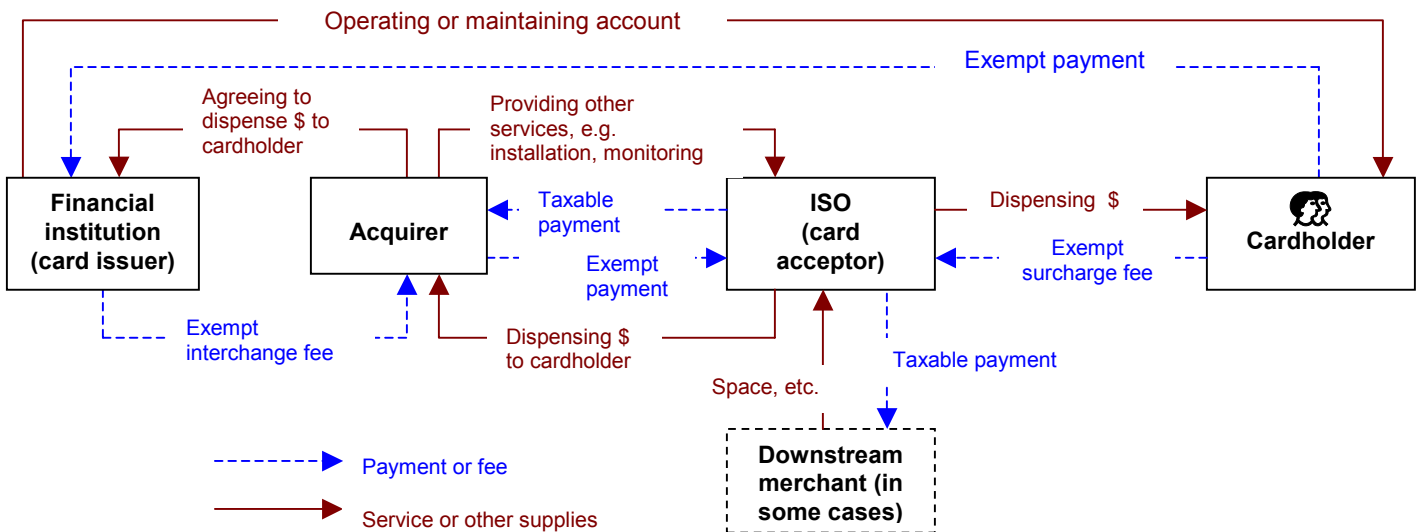
The ISO may also make other taxable purchases, such as:

- purchase or lease of ABMs;
- ABM site preparation or improvements, including communication and other electrical lines (e.g., hardwiring);
- ABM money replenishing services;
- paper and other supplies;
- ABM repair or maintenance services; or
- in some cases, payments to a downstream merchant for housing ABMs and providing electricity, telephone lines, etc.

The ISO cannot claim input tax credits for GST/HST paid or payable in respect of these taxable purchases to the extent that they relate to the making of exempt supplies of financial services.

The acquirer, however, may claim input tax credits for GST/HST paid or payable in respect of taxable purchases to the extent that they relate to the taxable services it provides to the ISO.

Diagram 2



- Card issuer pays acquirer interchange fee for agreeing to dispense cash to the cardholder – supply of exempt financial service.
- Acquirer pays ISO an amount derived from the interchange fee paid by the financial institution to the acquirer for dispensing cash to cardholder – supply of exempt financial service.
- Cardholder pays ISO a surcharge fee for dispensing cash – supply of exempt financial service.
- ISO makes taxable purchases (e.g., money replenishing service, ABM service/maintenance and utilities), including paying the acquirer for other services such as installation, monitoring, etc., and in some cases, paying a downstream merchant for housing the ABM.
- ISO cannot claim input tax credits for GST/HST paid on taxable purchases if these relate to exempt supplies of financial services.
- Acquirer may claim input tax credits for GST/HST paid or payable on taxable purchases to the extent that they relate to taxable supplies provided, such as installation and monitoring.

**Scenario 3 — Merchant is the card acceptor**

Diagram 3 provides an example of services that may be supplied and payments that may be made where a merchant is the card acceptor. A merchant who is not a member of a payment network generally enters into an agreement with an acquirer for services.

In this situation, the acquirer receives an interchange fee from the card issuer for agreeing to dispense cash to a cardholder. The service provided by the acquirer to the card issuer in exchange for the interchange fee is an

exempt financial service and the acquirer does not collect GST/HST on this supply.

The merchant receives a payment from the acquirer (derived from the interchange fee paid by the card issuer to the acquirer) for dispensing cash from the ABM to the cardholder. The service provided by the merchant to the acquirer in exchange for this payment is an exempt financial service and the merchant does not collect GST/HST on this supply.

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The merchant also receives a surcharge fee debited from the cardholder's account for dispensing cash from the ABM to the cardholder. The service provided by the merchant to the cardholder in exchange for the surcharge fee is an exempt financial service and the merchant does not collect GST/HST on this supply.

Under the agreement between the merchant and the acquirer, the acquirer may make taxable supplies to the merchant, such as ABM monitoring.

The merchant may also make other taxable purchases such as:

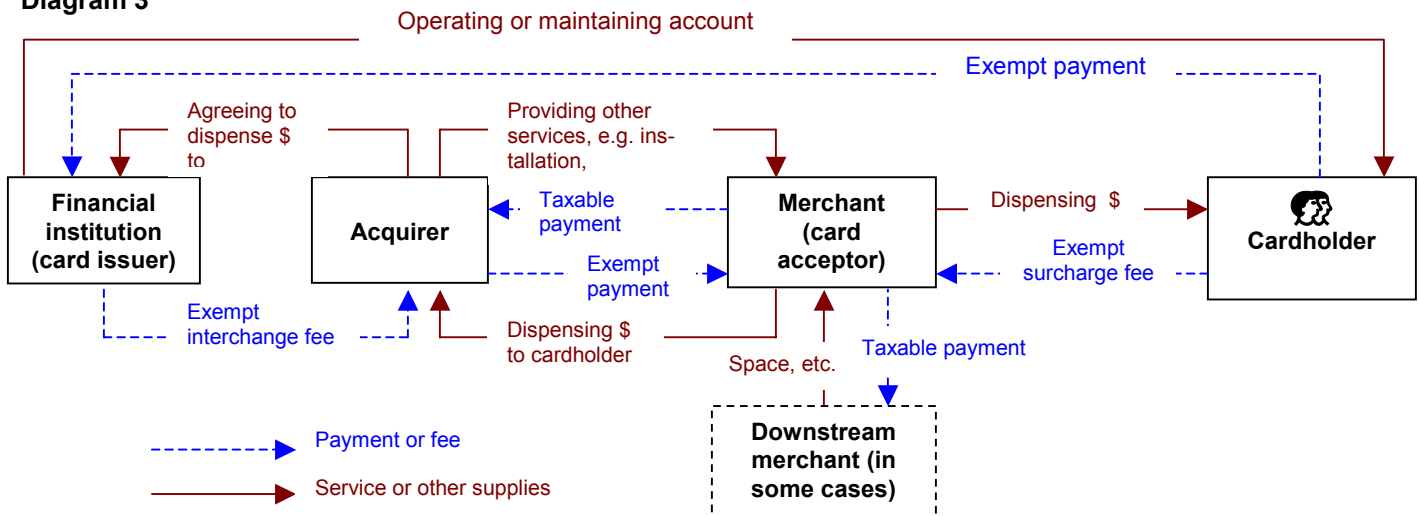
- purchase or lease of ABMs;
- ABM site preparation or improvements, including communication and other electrical lines (e.g., hardwiring);

- ABM money replenishing services;
- paper and other supplies;
- ABM repair or maintenance services; or
- in some cases, payments to a downstream merchant for housing ABMs and providing electricity, telephone lines, etc.

The merchant cannot claim input tax credits for GST/HST paid or payable in respect of these taxable purchases to the extent that they relate to the making of exempt supplies of financial services.

The acquirer, however, may claim input tax credits for GST/HST paid or payable in respect of taxable purchases to the extent that they relate to taxable services provided to the merchant.

**Diagram 3**



- Card issuer pays acquirer interchange fee for agreeing to dispense cash to the cardholder – supply of exempt financial service.
- Acquirer pays merchant an amount derived from the interchange fee paid by the financial institution to the acquirer for dispensing cash to cardholder – supply of exempt financial service.
- Cardholder pays merchant a surcharge fee for dispensing cash – supply of exempt financial service.

- Merchant makes taxable purchases (e.g., money replenishing service, ABM service/maintenance and utilities), including paying the acquirer for other services such as installation, monitoring, etc., and, in some cases, paying a downstream merchant for housing the ABM.
- Merchant cannot claim input tax credits for GST/HST paid or payable on taxable purchases if these relate to exempt supplies of financial services.
- Acquirer may claim input tax credits for GST/HST paid or payable on taxable purchases to the extent that they relate to taxable supplies provided, such as installation and monitoring.

## Scenario 4 — Merchant is the card acceptor and contracts with an ISO

Diagram 4 provides an example of services which may be provided and payments that may be made where an ISO contracts with a merchant to be the card acceptor and where a merchant contracts with the ISO to provide services for the ABM that the ISO has sold or leased to the merchant.

In this situation, the acquirer receives an interchange fee from the card issuer for agreeing to pay cash to a cardholder. The service provided by the acquirer to the card issuer, in exchange for the interchange fee, is an exempt financial service and the acquirer does not collect GST/HST on this supply.

The ISO receives a payment from the acquirer, derived from the interchange fee paid by the card issuer to the

acquirer, for agreeing to dispense cash to the cardholder. The service provided by the ISO to the acquirer in exchange for this payment is an exempt financial service and the ISO does not collect GST/HST on this supply.

The merchant receives a payment from the ISO (derived from the payment the ISO receives from the acquirer) for dispensing cash from the ABM to the cardholder. The service provided by the merchant to the ISO in exchange for this payment is an exempt financial service and the merchant does not collect GST/HST on this supply.

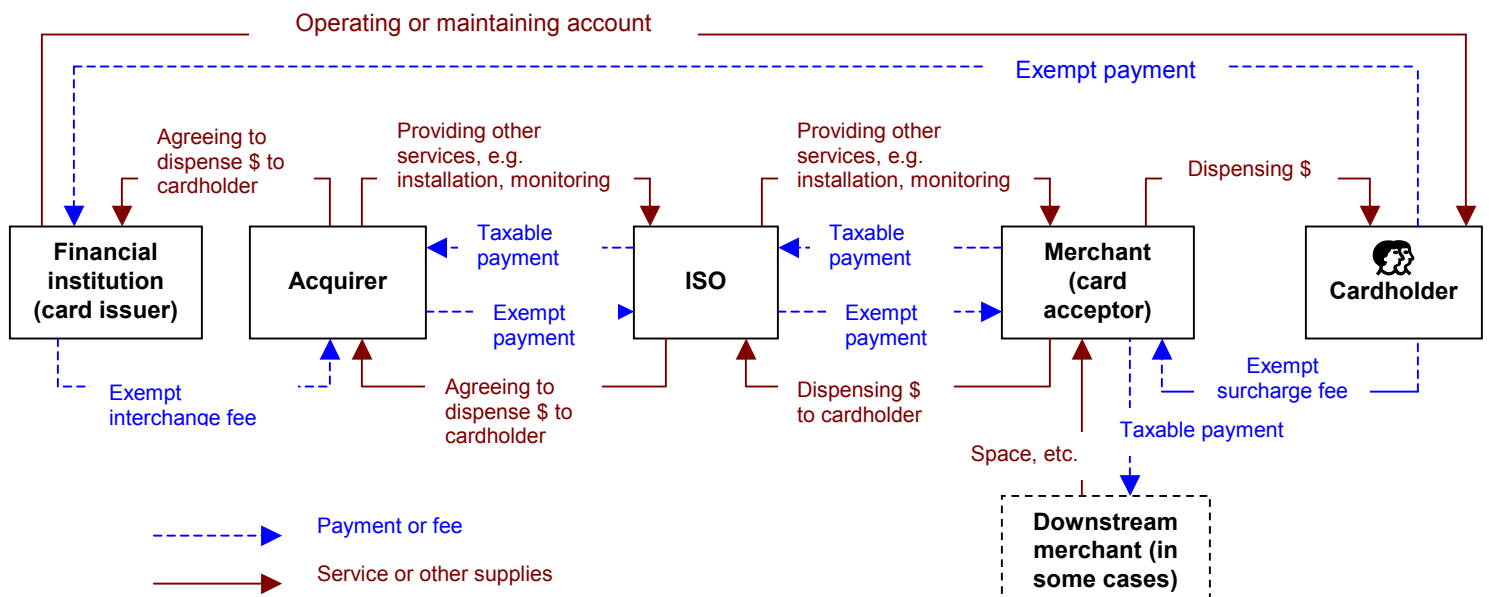
The merchant also receives a surcharge fee from the cardholder for dispensing cash from the ABM to the cardholder. The service provided by the merchant to the cardholder, in exchange for the surcharge fee, is an exempt financial service and the merchant does not collect GST/HST on this supply.

A merchant who is not a member of a payment network generally enters into an agreement with an ISO that in turn has entered into an agreement with an acquirer for services. Under these agreements, the acquirer may be making taxable supplies to the ISO and the ISO may be making taxable supplies to the merchant.

The merchant cannot claim input tax credits for GST/HST paid or payable in respect of taxable purchases to the extent that they relate to the making of exempt supplies of financial services.

The acquirer and the ISO may, however, claim input tax credits for GST/HST paid or payable in respect of taxable purchases to the extent that they relate to taxable services that they provide.

Diagram 4



- Card issuer pays acquirer interchange fee for agreeing to dispense cash to the cardholder – supply of exempt financial service.
- Acquirer pays ISO an amount derived from the interchange fee paid by the financial institution to the acquirer for agreeing to dispense cash to the cardholder – supply of exempt financial service.
- ISO pays merchant an amount derived from the payment made by the acquirer to the ISO for dispensing cash to the cardholder – supply of exempt financial service.
- Cardholder pays merchant a surcharge fee for dispensing cash – supply of exempt financial service.
- Merchant makes taxable purchases (e.g., money replenishing service, ABM service/maintenance and utilities), including paying the ISO for other services and, in some cases, paying a downstream merchant for housing the ABM.
- Merchant cannot claim input tax credits for GST/HST paid on taxable purchases if these relate to exempt financial services.
- Acquirer and ISO may claim input tax credits for GST/HST paid or payable on taxable purchases to the extent that they relate to taxable supplies such as installation and monitoring.

The information in this info sheet does not replace the law found in *the Excise Tax Act* (Act) and its Regulations. It is provided for your reference. As it may not completely address your particular operation, you may wish to refer to the Act or appropriate Regulation, or contact a Canada Revenue Agency (CRA) GST/HST Rulings Centre for more information. These centres are listed in GST/HST Memorandum 1.2, *Canada Revenue Agency GST/HST Rulings Centres*. If you wish to make a technical enquiry on the GST/HST by telephone, please call the toll-free number 1-800-959-8287. A ruling should be requested for certainty in respect of any particular GST/HST matter.

If you are located in Quebec and wish to make a technical enquiry or request a ruling related to the GST/HST, please contact Revenu Québec by calling the toll-free number 1-800-567-4692.

All GST/HST publications are available on the Internet at the CRA site at [www.cra-arc.gc.ca/tax/technical/gsthst-e.html](http://www.cra-arc.gc.ca/tax/technical/gsthst-e.html).

Reference in CRA publications is made to the harmonized sales tax (HST) that applies to property and services provided in Nova Scotia, New Brunswick, and Newfoundland and Labrador (the “participating provinces”) at a rate of 14%. The goods and services tax rate is 6%