

GST/HST News #45

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Standard Disclaimer

The *GST/HST News* is published quarterly and highlights recent developments in the administration of the goods and services tax (GST) and harmonized sales tax (HST), as well as excise taxes and duties. This publication is provided for information purposes only and does not replace the law, either enacted or proposed. For further information on any of the articles contained in this newsletter, contact your nearest Canada Customs and Revenue Agency (CCRA) tax services office or call Business Enquiries at 1-800-959-5525. Comments or suggestions about the newsletter should be sent to the Editor, *GST/HST News*, Policy and Legislation Branch, CCRA, Ottawa, Ontario K1A 0L5.
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Table of Contents

QUICK METHOD OF ACCOUNTING2

AIR TRAVELLERS SECURITY CHARGE.....5

GOVERNMENT OF CANADA APPEALS RULING IN *BENOÎT V THE QUEEN*6

CCRA FOCUSES ON SMALL BUSINESS FOR R&D TAX CREDITS7

UPDATE ON YUKON FIRST NATIONS AND YUKON INDIANS.....8

WHAT’S NEW IN PUBLICATIONS.....8

PRESCRIBED RATES OF INTEREST9

GST/HST ENQUIRIES.....9

Quick Method of Accounting

If you are a small business, you may be able to use the Quick Method of accounting for the GST/HST. This article will outline what the Quick Method is and who can use it.

The Quick Method is a simplified accounting option available to help small businesses calculate the GST/HST they have to remit without having to record GST/HST separately on their eligible sales (i.e., sales made in the usual course of business), or claim input tax credits on operating expenses and inventory purchases. However, when using the Quick Method, you still have to keep records of your purchases and sales. The Quick Method can reduce paperwork and bookkeeping costs, make it easier to complete the GST/HST return, and is available to annual, quarterly and monthly filers, provided the conditions described below are met.

Certain businesses cannot use this method, such as accountants, bookkeepers, notaries, tax consultants, lawyers, and financial consultants. A complete list of ineligible registrants can be found in the CCRA guide RC4058, *Quick Method of Accounting for GST/HST*.

(<http://www.ccra-adrc.gc.ca/E/pub/cp/rc4058eq/rc4058eq.html>).

You may use this method if your annual worldwide taxable sales (including zero-rated sales) and those of your associates are no more than \$200,000 (including GST/HST) in any four consecutive quarters in the five quarters immediately preceding the effective date of the election. The \$200,000 limit does not include supplies of financial services, sales of real property, sales of capital assets, sales of eligible capital property and goodwill.

With the Quick Method, you charge and collect the 7% GST or 15% HST on taxable goods and services you sell or provide to your customers in the usual way. But, to calculate the net GST/HST to remit, you multiply your taxable sales including GST and your taxable sales including HST made during the reporting period by the Quick Method rate which applies to those sales.

There are several remittance rates. See the CCRA guide RC4058, *Quick Method of Accounting for GST/HST*, (<http://www.ccra-adrc.gc.ca/E/pub/cp/rc4058eq/rc4058eq.html>) to help you determine which rate or rates apply to your sales.

The remittance rates depend on whether you are in a service business or a retail or manufacturing business, on the province in which your permanent establishment is located, and where your services are provided. The most common remittance rates are:

- 5% (or 10% for businesses in participating provinces) for service businesses such as delivery services, dry cleaners, auto repair shops, caterers, fast food outlets, travel agents, taxi drivers, photographers, and painting contractors; and
- 2.5% (or 5% for businesses in participating provinces) for retailers and wholesalers, including grocery and convenience stores, that buy goods to resell in the same form as they were bought or to use in goods they produce or manufacture to resell. To qualify for these rates, your purchases (other than basic groceries) must equal at least 40% of your total annual taxable sales (including GST/HST). Certain sales, such as sales of real property, are excluded from the calculation. Businesses such as antique dealers, bookstores, boutiques, novelty stores, and service stations could qualify for these rates.

The Quick Method remittance rates apply only to sales you make in the usual course of business, on which you must collect 7% GST or 15% HST.

For supplies you make outside the usual course of business, such as real estate sales or sales of used capital goods eligible for a capital cost allowance deduction for income tax purposes, you have to include the GST/HST charged in your net tax calculation, rather than using the Quick Method remittance rate. Do not include proceeds from selling your business assets in the sales figure you use for your Quick Method calculation.

Credit of 1% on the first \$30,000 of your eligible sales

You are also entitled to a 1% credit on the first \$30,000 (including GST/HST) of your eligible sales on which you must collect 7% GST or 15% HST. To qualify for this 1% credit, your Quick Method election must be in effect at the beginning of your fiscal year, or if you are a new GST/HST registrant, on the day you became a registrant.

Input tax credits (ITCs)

When you use the Quick Method, you do not need to separately keep track of the GST/HST you pay or owe on your operating expenses (such as utilities, rent, and telephone expenses), meal and entertainment expenses, as well as inventory purchases, but you still have to keep records of them. The Quick Method remittance rates take into account the GST/HST you pay on these purchases and expenses. As such, you cannot claim ITCs for these expenses and purchases. However, you should claim ITCs in the usual manner for the GST/HST payable on certain purchases, such as purchases of land, and purchases for which you can claim a capital cost allowance deduction for income tax purposes, such as computers, vehicles, other large equipment and machinery.

How do I start using the Quick Method?

To use the Quick Method, refer to the CCRA guide RC4058, *Quick Method of Accounting for GST/HST* (<http://www.ccra-adrc.gc.ca/E/pub/cp/rc4058eq/rc4058eq.html>). The booklet includes Form GST74, *Election and Revocation of an Election to Use the Quick Method of Accounting*. You can complete Form GST74 and send it to us, or call us at 1-800-959-5525 to elect to start using the Quick Method.

If you are an annual filer, you have up to three months from the beginning of your fiscal year to file the election for it to be effective that year. If you are a monthly or quarterly filer, you have until the due date of the return for the reporting period for which you want to start using the Quick Method.

Different simplified accounting methods are available for charities, qualifying non-profit organizations, and other public service bodies. For information on these simplified accounting methods, refer to the following guides:

- RC4082, *GST/HST Information for Charities*;
<http://www.ccra-adrc.gc.ca/E/pub/gp/rc4082ed/rc4082ed.html>
- RC4081, *GST/HST Information for Non-Profit Organizations*;
<http://www.ccra-adrc.gc.ca/E/pub/gp/rc4081eq/rc4081eq.html> and
- RC4049, *GST/HST Information for Municipalities*.
<http://www.ccra-adrc.gc.ca/E/pub/cp/rc4049eq/rc4049eq.html>

Air Travellers Security Charge

Bill C-49, the legislation to implement the Air Travellers Security Charge (ATSC), received Royal Assent on March 27, 2002.

Effective April 1, 2002, the CCRA is responsible for administering the ATSC. It will be collected by air carriers or their agents at the time of ticket purchase.

Generally, for travel within the continental zone (i.e., Canada, the United States excluding Hawaii, and the islands of St. Pierre and Miquelon), and where GST/HST applies at the rate of 7% or 15% to the air passenger transportation service, the charge will be \$11.22 for each chargeable emplanement in Canada to a maximum of \$22.43. Where the air passenger transportation service is zero-rated or where GST/HST does not apply, the charge will be \$12.00 for each chargeable emplanement in Canada to a maximum of \$24.00.

For travel to a destination outside the continental zone, the charge will be \$24.00 where there are one or more chargeable emplanements in Canada.

For GST/HST purposes, the amount of the ATSC is included in the consideration for the supply of the air passenger transportation service. As such, where the supply of the service, other than a zero-rated service, is made in a participating province, the total consideration for the supply, which includes the ATSC, is subject to the HST at 15%. Where the supply is made in a non-participating province, the total consideration for the supply, including the ATSC, is subject to GST at 7% provided the supply is not zero-rated.

For more information on the ATSC, please refer to the CCRA Internet site devoted to the ATSC: <http://www.ccr-aadrc.gc.ca/tax/individuals/topics/atsc/menu-e.html>

Government of Canada Appeals Ruling in *Benoît v The Queen*

The Government of Canada has filed a notice of appeal with the Federal Court of Appeal regarding the Federal Court - Trial Division's decision in the case of *Benoît v. The Queen*.

On March 7, 2002, Mr. Justice Douglas Campbell of the Federal Court - Trial Division ruled in favour of the plaintiffs, in finding a tax exemption with respect to the beneficiaries of Indian Treaty 8 (which includes aboriginal people originally from northern British Columbia, Alberta, Saskatchewan and southern Northwest Territories).

On May 3, 2002, the CCRA announced that the Federal Court of Appeal granted a stay of the decision of the Federal Court - Trial Division. The stay will permit the CCRA to continue to apply its programs, policies, and procedures in the usual manner. This minimizes uncertainty for individuals, employers, and merchants while the case is under appeal. Please refer to the CCRA news release at this site: <http://www.ccra-adrc.gc.ca/newsroom/releases/2002/may/benoit-e.html>

The "business as usual" approach for Treaty 8 beneficiaries with respect to the administration of tax laws means that income tax deductions at source and GST/HST on importations and off-reserve purchases should continue to be paid as before. The CCRA will continue to administer the existing tax exemption provided under the *Indian Act* for status Indian income situated on reserves, and for goods or services purchased on or delivered to reserves by the vendor.

While the case is before the courts, the CCRA encourages taxpayers who believe they are entitled to the benefits of Treaty 8 to protect their rights by keeping records of taxes paid, including receipts for GST/HST paid on purchases. These records will be necessary to make a claim to recover the tax in the future if the Treaty 8 tax exemption is upheld in the courts.

Taxpayers who wish to claim a Treaty 8 exemption for income tax purposes may file a Notice of Objection. For more information, taxpayers can refer to the CCRA guide RC 4213, *Your Rights*. <http://www.ccra-adrc.gc.ca/E/pub/xi/rc4213eq/rc4213eq.html>

CCRA Focuses on Small Business for R&D Tax Credits

Small and medium sized businesses may not be taking full advantage of the tax credits offered through the federal government's Scientific Research & Experimental Development (SR&ED) Program. The program has been designed by the federal government and administered by CCRA as a major incentive to encourage research and development (R&D) in Canada.

If your company qualifies, you could get back up to 35% of your SR&ED costs, possibly helping to finance further projects and improve your overall financial position.

You do not have to have a high-tech R&D facility to qualify. If you are a Canadian business that develops new or improved materials, products, or processes in Canada you may be eligible for refunds.

Your claimed work must also meet certain requirements concerning the type of work, involvement of technological advancement, supporting documentation, and expenditures.

The CCRA has set up the following services designed to meet the needs of small and medium sized businesses:

- The **First Time Claimant Service** puts your business in touch with a representative who will answer your questions about the SR&ED Program.
- The **Account Executive Service** links you up with a designated contact person from the SR&ED Program. This makes for effective, two-way communication.
- The **Preclaim Project Review Service** offers you a preliminary opinion on the eligibility of your projects.
- Information seminars are provided on a regular basis in most regions to provide introductory information to first time users.

For more information on the SR&ED Program, visit your tax services office or the CCRA Internet site at <http://www.cra.gc.ca/taxcredit/sred>.

Update on Yukon First Nations and Yukon Indians

The Ta'an Kwach'an First Nation Final Agreement has been confirmed by Order in Council. Effective April 1, 2002, the Ta'an Kwach'an First Nation and its Indian members will no longer be able to acquire goods or services relieved of tax unless the Indian members reside outside the Yukon and providing they meet the conditions set out in Technical Information Bulletin, (TIB) B-039R, *GST Administrative Policy - Application of GST to Indians*. (<http://www.cca-adrc.gc.ca/E/pub/gm/b-039rem/b-039r-e.html>)

What's new in publications

GST/HST Technical Information Bulletins

TIB-089 *Returnable Containers*

GST/HST Guides

RC4028 *GST/HST New Housing Rebate;*
RC4031 *Tax Refund for Visitors to Canada*
RC4100 *Harmonized Sales Tax and the Provincial Motor Vehicle Tax*

GST/HST Forms

Form GST190 *GST/HST New Housing Rebate Application*
Form GST190 *WS Construction Summary Worksheet*
Form GST176 *Application for Visitor Tax Refund*

Current publications can be found on the CCRA Internet site at the following address: www.cca-adrc.gc.ca/tax/business/gsthst/menu-e.html for guides, pamphlets, forms, and the *GST/HST News*, or at www.cca-adrc.gc.ca/menu/EmenuKZW.html for GST/HST Memoranda, Technical Information Bulletins, Policy Papers and Notices.

Prescribed rates of interest

GST/HST interest and penalty compound daily. Income tax interest also compounds daily. For excise duty, penalty compounds monthly, and interest compounds daily. For excise tax, penalties and interest are calculated monthly for each month or part-month in which a balance remains. The total amount payable is based on the total tax, penalties, and interest outstanding. Prescribed interest rates are adjusted every calendar quarter.

These rates of interest are also available on the CCRA Internet site at: <http://www.ccra-adrc.gc.ca/E/pub/gi/prier---eq/>

	GST/HST, Excise Tax (annualized rates)		Excise Duty (annual rates)		Income Tax (annual rates)		Arrears and Instalment Interest %
	Interest % *	Penalty %	Interest %	Penalty %	Refund Interest %	Interest %	
2002							
July 1 – September 30	2.3804	6.0	5.0	6.0	5.0		7.0
April 1 - June 30	2.4066	6.0	4.0	6.0	4.0		6.0
January 1 - March 31	2.4333	6.0	5.0	6.0	5.0		7.0

* To calculate interest for GST/HST purposes only, divide the adjusted annual interest rate by 365 and apply it daily.

GST/HST Enquiries

To make enquiries regarding your GST/HST account call Business Enquiries at 1-800-959-5525

To make enquiries regarding the status of specific GST/HST domestic rebate claims call 1-800-565-9353

To make enquiries regarding the status of visitor rebate claims call 1-800-668-4748

To obtain copies of forms and publications call 1-800-959-2221