



GST/HST Memoranda Series

17.10 Tax Discounters

May 1999

Overview	This memorandum explains, for purposes of the Goods and Services Tax (GST)/Harmonized Sales Tax (HST), the provisions of the <i>Excise Tax Act</i> that pertain to tax discounters.
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Disclaimer

The information in this memorandum does not replace the law found in the *Excise Tax 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.

If you are located in the Province of Quebec, please contact Revenu Québec by calling the toll-free number 1-800-567-4692 for additional information.

Note

This memorandum supersedes GST Memorandum 700-5-5, *Tax Discounters*, dated September 29, 1992.

Note - HST

Reference in this publication is made to supplies taxable at 7% or 15% (the rate of the HST). The 15% HST applies to supplies made in Nova Scotia, New Brunswick and Newfoundland (the “participating provinces”). If a person is uncertain as to whether the supply is made in a participating province, the person may refer to Technical Information Bulletin B-078, *Place of Supply Rules under the HST*, available from any Revenue Canada tax services office.

Financial institutions

- Tax discounters subpara 149(1)(a)(x)**
1. A person who provides financial services by means of discounting income tax refunds and who is considered to be a discounter for purposes of the *Tax Rebate Discounting Act* is considered to be a listed financial institution for GST/HST purposes. As a result, tax discounters are required to follow the special rules provided for financial institutions.
 2. Information on listed financial institutions can be found in GST/HST Memorandum 17.6, *Definition of “Listed Financial Institution”*. Information may also be obtained by contacting the nearest Revenue Canada tax services office.

Tax discounting services

- Tax refund discounts 3. There are special rules for the treatment of income tax discounting services to which the *Tax Rebate Discounting Act* applies. These services involve customers assigning their rights to an income tax refund to a tax discounter in return for an immediate payment.
- s 158 4. A discounter (within the meaning of the *Tax Rebate Discounting Act*) who pays an amount to a person to acquire from the person a right to a refund of tax (within the meaning of the *Tax Rebate Discounting Act*), notwithstanding section 139¹, is deemed to have made two supplies:
- (a) a taxable supply of a service for consideration equal to the lesser of:
- (i) $2/3 \times (\text{refund} - \text{amount paid to the person by the discounter})$; and
- (ii) \$30;
- and
- (b) a separate exempt supply of a financial service. See paragraph 6 for a detailed explanation and example.
- Formula 5. As a result, the consideration for the taxable supply equals 2/3 of the difference between the actual tax refund and the amount paid by the discounter to the client, to a maximum of \$30. The remainder of the fee (or discount) charged by the discounter to the client is treated as consideration for the financial service.
- Deemed supplies 6. For GST/HST purposes, tax discounters are deemed to have made two supplies. The first supply (paragraph 4(a)) which involves a service of preparing the client's tax return is taxable at 7% or 15%. The second supply (paragraph 4(b)) which involves a financial service (i.e., the payment of the discounted refund to the client) is exempt.
- Example A Manitoba taxpayer's estimated refund is \$500. The discount under the *Tax Rebate Discounting Act* is:
- | | |
|----------------------|-------------|
| 15% of the 1st \$300 | \$45 |
| 5% of balance | <u>\$10</u> |
| Total discount | \$55 |
- The Manitoba taxpayer would receive from the discounter the difference between the estimated refund and the total discount, which in this case would be \$445.

Footnote ¹ Section 158 (tax discounters) overrides section 139 (financial services in mixed supplies) which, if it applied, would deem the entire supply made by the tax discounter to be a financial service.

Section number and title (continued)

Part (a) of s 158

Taxable portion of the total discount

Using the formula found in section 158, the tax would be charged on the lesser of:

(a) $2/3$ of \$55 (= \$36.67); and

(b) \$30.

In this example, the tax would be charged on the \$30. Therefore, the client would have to pay $\$30 \times 7\% = \2.10 as an additional charge in respect of the tax.

Part (b) of s 158

Exempt portion of the total discount

$\$500 - (\$445 + 30) = \$25$.

The \$25 represents the fee for providing the financial service (i.e., the payment of the discounted refund) to the client; therefore, no tax is charged on this portion of the total discount.

Additional information

7. The Revenue Canada publication T 4163, *Procedures Guide for Discounters*, provides complete information on tax discounters and includes the relevant forms for tax discounting transactions.

Registration

Required registration
ss 240(1)

8. If a tax discounter is engaged in commercial activities in Canada and makes taxable supplies in excess of \$30,000 or, where the tax discounter is a public service body, \$50,000, in any four consecutive calendar quarters or in any one particular quarter, the tax discounter is required to register for purposes of the GST/HST.

Small supplier
s 148

9. A tax discounter who is a small supplier in accordance with section 148 of the Act (i.e., in general, whose annual taxable supplies do not exceed the \$30,000 or, in the case of a public service body, \$50,000 threshold) may voluntarily register for purposes of the GST/HST.

10. Chapter 2, *Registration*, of the GST/HST Memoranda Series provides complete information on registration for the GST/HST.

Input tax credits

General rule
s 169

11. Only registrants are entitled to claim input tax credits (ITCs) for the tax paid or payable on their purchases. Generally, ITCs may be claimed to the extent that the purchases were acquired or imported for consumption, use or supply in the registrants' commercial activities.

Section number and title (continued)

12. Registrants that are tax discounters making exempt supplies of financial services are not entitled to claim ITCs for the tax paid or payable on their acquisitions and imports to the extent these inputs relate to the making of exempt supplies of financial services.

Method of determining extent of use, etc.
ss 141.01(5)

13. A tax discounter, if a registrant, is required to apportion its inputs between its commercial and other activities using a method or methods that are fair and reasonable in the circumstances for purposes of claiming ITCs. The method or methods must also be used by the person consistently throughout the year.

Additional information

14. Detailed information on ITCs for financial institutions will be available in GST/HST Memorandum 17.12, *ITCs for Financial Institutions*. Information on ITCs with respect to capital personal property will be available in GST/HST Memorandum 17.11, *Capital Property*, and Chapter 11, *ITCs: Capital Personal Property*, of the GST/HST Memoranda Series.

Adjustments

Policy statement P-123,
*Bad Debt Write-Offs for
Income Tax Discounters*

15. At the time of discounting, the tax discounter has an account receivable that will be outstanding until the income tax refund is received. In some instances the tax discounter receives less than the expected income tax refund, and, if the amount is uncollectible, will write off the outstanding amount as a bad debt. Since the maximum charge for the taxable supply of the discounting service is \$30, the discounter is entitled to a deduction for bad debt write-offs when the income tax refund received is less than or equal to \$300. Therefore, the discounter may claim an ITC adjustment on the bad debt that is written off if the actual income tax refund is less than \$300. If the actual income tax refund exceeds \$300, no ITC adjustment on the bad debt that is written off is allowed.

Example

An expected refund is \$400. The actual refund received is \$200. The difference of \$200 is written off as a bad debt by the tax discounter. The deduction to net tax the tax discounter will be entitled to claim as an ITC adjustment is calculated to be \$0.70 (i.e., $100/300 \times \$2.10 = \0.70).

16. Information on bad debt adjustments will be found in Chapter 12, *ITC Adjustments*.

All GST/HST memoranda and other Revenue Canada publications are available on Internet at the Revenue Canada site <http://www.rc.gc.ca/> under the heading "Technical Information" in "General Information".