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# **GST/HST Information for the Travel and Convention Industry**

If you have a visual impairment, you can get our publications in braille, large print, or etext (CD or diskette), or on audio cassette or MP3. For details, visit our Web site at [www.cra.gc.ca/alternate](http://www.cra.gc.ca/alternate) or call **1-800-959-2221**.

This guide uses plain language to explain the most common tax situations. If you need more help after you read this guide, call our Business Enquiries line at **1-800-959-5525**.

La version française de cette publication est intitulée *Renseignements sur la TPS/TVH pour l'industrie du tourisme et des congrès*.

## Before you start

### What's new

Effective July 1, 2006, the goods and services tax (GST) rate is 6%, and the harmonized sale tax (HST) rate is 14%.

### Is this guide for you?

This guide explains how the GST/HST applies to the Canadian travel and convention industry. This guide gives information on how to charge GST/HST on accommodation, tour packages, passenger transportation services, conventions, meeting facilities, and related services. There is also information on the non-resident tax refund, including how Canadian travel-service providers can credit the refund to non-residents.

If you would like general information on GST/HST, see our guide RC4022, *General Information for GST/HST Registrants*. If you are a non-resident travel-service provider such as a convention organizer, sponsor, or tour operator who is not registered for GST/HST, and would like more information about whether you should register, see our guide RC4027, *Doing Business in Canada – GST/HST Information for Non-Residents*.

For more information on non-resident tax refunds, see our pamphlet RC4160, *Tax Refund for Non-Resident Travel Organizers and Foreign Conventions*.

### Internet access

Visit our Web site at [www.cra.gc.ca](http://www.cra.gc.ca). You may want to bookmark this address for easier access to our Web site in the future.

### How to contact us

If you need more information about GST/HST, call our Business Enquiries line at **1-800-959-5525**.

### Forms and publications

Throughout this guide, we mention forms and other publications. Many of these are available on our Web site at [www.cra.gc.ca/forms](http://www.cra.gc.ca/forms). You can also get copies of our forms or publications by calling **1-800-959-2221** within Canada and the United States or **613-952-3741** from outside Canada and the United States.

### Teletypewriter users

If you have a hearing or speech impairment and use a teletypewriter, you can call our bilingual enquiry service at **1-800-665-0354** during regular business hours.

### Direct deposit

If you are expecting refunds or rebates, you can complete and send us Form GST469, *Direct Deposit Request*. This is a safe, convenient, dependable, and time-saving method of receiving your GST/HST refunds and rebates.

### GST/HST electronic filing and remitting

Eligible GST/HST returns can be filed electronically using GST/HST TELEFILE or GST/HST NETFILE. Returns and remittances can also be filed electronically through a participating financial institution. For more information visit our Web site at [www.cra.gc.ca](http://www.cra.gc.ca), or contact your financial institution.

### GST/HST and Quebec

In Quebec, Revenu Québec administers GST/HST. If you have business operations in Quebec, you can contact Revenu Québec at **1-800-567-4692** (if you are in Canada or United States) or **418-659-4692** (if you are calling from outside Canada or the United States).

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## Terms we use in this guide

**Continuous journey** of an individual or a group of individuals means the set of all passenger transportation services provided to the individual or group:

- and for which one ticket or voucher is issued in respect of all the services is issued; or
- for which separate tickets are issued by the same supplier or agent for two or more legs of a single journey, and there are no stopovers between any of the linking legs.

For more information, see the section “Continuous journey” on page 14.

**Convention** means a formal meeting or assembly that is not open to the general public. However, a convention does not include a meeting or assembly mainly intended to:

- provide any type of amusement, entertainment, or recreation;
- conduct contests or games of chance; or
- conduct business, unless it is in the course of a trade show that is not open to the general public.

**Convention facility** means real property that is acquired by way of lease, licence or similar arrangement by the sponsor or organizer of a convention for use exclusively as the site for the convention.

**Coupon** is a document or other device, such as a voucher, receipt, or ticket that may be redeemed for a product or service or towards the purchase of a product or service, but does not include a gift certificate or a barter unit.

**Exempt supplies** are goods and services that are not subject to GST/HST. You cannot claim input tax credits for GST/HST paid or payable on expenses related to these supplies.

**Foreign convention** means a convention where:

- at least 75% of the admissions are reasonably expected to be supplied to non-residents of Canada, when the sponsor of the convention determines the amount to be charged for admissions;; and
- the sponsor of the convention is an organization whose head office is situated outside Canada or, if the organization has no head office, the member or majority of members with management and control of the organization is or are non-resident.

**Incentive house or incentive travel company** refers to a business that assembles some or all of the elements of an incentive trip by buying them from travel-service providers (e.g., airline companies and hotels) and offering them for sale to another business. The incentive house bills the client for these costs along with its service charge. The client in turn offers the incentive trip to its employees or sales agents. In some cases, an incentive house may qualify as an organizer of a convention.

**Incentive travel or incentive trip** refers to a trip that a business offers as an award to recognize or reward the productivity of its employees or sales agents. It may include corporate meetings, seminars, or conventions, as long as the participants are all from the same organization.

**In-house planner** refers to a member or employee of a business who organizes an incentive trip or business meeting. The business cannot be a travel-service provider. However, it may buy services directly from travel-service providers, or buy all or part of a tour package from an incentive house or a travel organizer.

### Note

If an incentive trip includes business or corporate meetings, the meetings may qualify as conventions. In this case, an in-house planner can be a sponsor.

**Input tax credit (ITC)** is a credit that GST/HST registrants can claim to recover the GST/HST they paid or owe to their suppliers for goods or services they acquired or imported into Canada, for use, consumption, or supply in the course of their commercial activities or brought into a participating province.

**Organizer of a convention** means the person that acquires the convention facility or related convention supplies and organizes the event for the sponsor of the convention.

**Origin** means, in respect of a continuous journey, the place where begins the passenger transportation service that is included in the continuous journey and that is first provided.

**Participating province** means the province of Nova Scotia, New Brunswick, or Newfoundland and Labrador.

**Person** includes an individual, a partnership, a corporation, the estate of a deceased individual, a trust, and an organization such as a society, club, commission, or association.

**Public service body** means a charity, a non-profit organization, a municipality, a school authority, a hospital authority, a public college, or a university.

**Registrant** means a person that is registered or that is required to be registered for GST/HST.

**Sponsor** of a convention means the person who convenes the convention and supplies admissions to it. Examples of a sponsor could be an association that holds a conference for its members or a corporation that holds a meeting for its employees.

**Stopover** is any place where a traveller boards or exits an aircraft, bus, train, boat, or other mode of passenger transportation for any reason other than to transfer to another mode of transportation, or for the mode of transportation to be serviced or refuelled.

**Supply** means the provision of property or a service in any way including sale, lease, licence, rental, transfer, barter, exchange, gift, and disposition.

**Taxable supplies** are goods and services that are supplied in the course of commercial activity and are subject to GST/HST at the rate of 6% and 14% respectively (before July 2006, the rates were 7% GST and 15% HST), or at the rate of 0% (zero-rated supplies).

**Taxation area** means Canada, the United States (except Hawaii), and the islands of St. Pierre and Miquelon.

**Termination** of a continuous journey means the place where the passenger transportation service that is included in the continuous journey and that is last provided ends.

**Tour package** means a combination of two or more services, or of property and services, that includes transportation services, accommodation, a right to use a campground or trailer park, or guide or interpreter services when the property and services are supplied together for an all-inclusive price.

**Travel-service providers** include travel agents, hotels, air carriers, tour operators, and cruise operators. If you buy travel services or tour packages to resell, we consider you to be a travel-service provider.

**Zero-rated supplies** are goods and services that are taxable at the rate of 0%. This means that there is no GST/HST charged on the supply of certain goods and services, but GST/HST registrants can claim an ITC for GST/HST they pay or owe on purchases and expenses made to provide these goods and services.

## What is GST/HST?

**G**ST is a tax that applies on most taxable supplies made in Canada. Three participating provinces (Nova Scotia, New Brunswick, and Newfoundland and Labrador) harmonized their provincial sales tax with GST to create the harmonized sales tax (HST). HST applies to the same goods and services as GST.

Changes to the GST/HST rates come into effect July 1, 2006. On or after July 1, 2006, GST is 6% and HST is 14% (6% is the federal part and 8% provincial part).

Before July 2006, GST was 7% and HST was 15% (7% was the federal part and 8% provincial part).

Registrants who make taxable supplies (other than zero-rated supplies) in the three participating provinces collect the HST. Registrants collect the GST on taxable supplies that are made in the rest of Canada (other than zero-rated supplies).

For more information, visit our Web site at [www.cra.gc.ca](http://www.cra.gc.ca) or see our guide RC4022, *General Information for GST/HST Registrants*.

## Who pays GST/HST?

Almost everyone has to pay GST/HST on purchases of taxable supplies of goods and services (other than zero-rated supplies). However, some groups or organizations such as provincial and territorial governments, Indians and Indian bands, do not always pay GST/HST on their purchases. Visit our Web site at [www.cra.gc.ca](http://www.cra.gc.ca) or call us for more information about collecting tax from these groups.

## Taxable goods and services

Examples of goods and services taxable at 6% or 14%:

- hotel and other short-term accommodation in Canada;
- convention space and meeting rooms;
- parking space rentals (if not provided with residential housing);
- travel agents' commissions (with some exceptions);
- domestic tour packages;
- most domestic passenger transportation by bus, train, ship, or aircraft;
- trans-border air travel to continental United States (excluding Hawaii) and the islands of St. Pierre and Miquelon;
- international day trips by road or rail;
- car rentals in Canada;
- ticket cancellation fees for domestic travel services;
- taxi and limousine fares;
- restaurant meals; and
- admissions to theatres, museums, and other places of entertainment.

Examples of goods and services taxable at 0% (zero-rated supplies) include:

- basic groceries such as milk, bread, and vegetables;
- prescription drugs and drug-dispensing fees;
- international air travel, **except** to continental United States and the islands of St. Pierre and Miquelon;
- international passenger transportation by road, and rail, **except** day trips; and
- most goods and services supplied in Canada and exported under certain circumstances.

For more information on zero-rated supplies, see GST/HST Memoranda Series Chapter 4, *Zero-Rated Supplies*.

## Exempt goods and services

Examples of exempt goods and services (exempt supplies) include:

- most long-term residential accommodation (of one month or more) and residential condominium fees;
- accommodation rented for no more than \$20 for each day of occupancy;
- insurance premiums for travel insurance provided by an insurance company;
- the commission an insurance company pays to a travel agency for selling its travel insurance;
- ferry (other than zero-rated), highway, and bridge tolls;
- municipal transit services; and

- child-care services (day-care services provided usually for less than 24 hours a day) provided primarily for children 14 years old and younger. **This does not include the supervision of a child provided in conjunction with a taxable passenger transportation service for the child.**

## How does GST/HST work?

As a GST/HST registrant, you charge your customers tax on the taxable goods and services you supply to them. You can claim an ITC to recover the GST/HST you paid or owe on purchases and expenses you use, consume, or supply in your commercial activities. Usually, commercial activities are those undertaken to provide taxable goods and services.

For example, if you buy taxable goods to resell in your store, you can recover the GST/HST you paid on those goods by claiming an ITC. You cannot claim an ITC to recover the GST/HST you paid or owe on purchases related to supplies of exempt goods and services, or those for personal use.

From a consumer's point of view, there is no difference between zero-rated and exempt goods and services, because no tax is charged in either case. However, the difference for you as a registrant is that although you do not collect GST/HST on zero-rated goods and services, you can claim ITCs.

## Reporting GST/HST

GST/HST returns are used to report the GST/HST collected or collectible. The period of time covered by a GST/HST return is called the reporting period. Returns are filed using monthly, quarterly, or annual reporting periods.

On your GST/HST return, you report the total amount of GST/HST collected or collectible from your customers during the reporting period. GST/HST reported has to include amounts billed or invoiced for, even though the amounts may not have been paid yet.

As a registrant, you can also claim a credit, called an ITC, on your return to recover the GST/HST you paid or owe on purchases and expenses you use in your commercial activities. For example, if you purchase notebooks to include in tour package kits, you can recover the GST/HST you paid on the notebooks by claiming an ITC on your GST/HST return.

When you fill out your return, you can deduct your ITCs from the GST/HST collected or collectible. If the tax collected or collectible from your customers is more than the tax you paid or owe on your purchases, send us the difference. If the tax you charged your customers is less than the tax you paid or owe, you can claim a refund.

For more information, visit our Web site at [www.cra.gc.ca](http://www.cra.gc.ca) or see our guide RC4022, *General Information for GST/HST Registrants*.

## Do you have to register for GST/HST?

You have to register for GST/HST if:

- you provide taxable goods or services in the course of your commercial activities in Canada; and
- the total (gross) worldwide taxable revenue of you and your associates is more than \$30,000 in the last four consecutive calendar quarters, or if it is more than \$30,000 in one calendar quarter.

This includes revenue from most zero-rated goods and services. See the section "Taxable goods and services" on page 6 for more information.

Public service bodies do not have to register for GST/HST until their total revenues from taxable supplies are more than \$50,000 in the last four consecutive calendar quarters, or in one calendar quarter.

### Exception

The following two persons **must register** for GST/HST, even if their total taxable revenue is less than the \$30,000 threshold:

- taxi and limousine operators, for their taxi operations; and
- non-residents who enter Canada to sell admissions to a place of amusement, a seminar, an activity, or an event.

While you do not have to register if your taxable revenue is \$30,000 or less (\$50,000 or less if you are a public service body), you may be able to register voluntarily. Once you register, you must charge and remit GST/HST on your taxable supplies of goods and services, and you can claim ITCs for the GST/HST you paid or owe on purchases related to these supplies. You have to stay registered for at least one year before you can ask to cancel your registration.

Generally, you cannot register for GST/HST if you are providing only exempt goods and services. For more information, see our booklet RC2, *The Business Number and Your Canada Revenue Agency Accounts*.

If you would like more information about whether to register for GST/HST, visit our Web site at [www.cra.gc.ca](http://www.cra.gc.ca) or contact our Business Enquiries line at 1-800-959-5525. For more information on how GST/HST works, see our guide RC4022, *General Information for GST/HST Registrants*.

## Accommodation and hospitality services

This section explains how GST/HST applies to goods and services commonly sold or provided by registrants in the accommodation and convention facility industry.

## Short-term accommodation

Short-term accommodation means the rental of a residential complex or residential unit for continuous occupancy of less than one month to an individual as a place of residence or lodging. For more information, see the section “How do I determine if my establishment qualifies as a residential complex?” below. GST/HST applies to short-term accommodation.

### Note

Rental charges of \$20 or less per day of occupancy for a residential unit are exempt from GST/HST, regardless of the rental period. In this case, the establishment does not have to qualify as a residential complex in order for the accommodation to be GST/HST exempt. Low-cost hotels and rooming and boarding houses are examples of premises that may offer this type of accommodation.

## Long-term accommodation

Rental accommodation of a residential complex or a residential unit in a residential complex such as an apartment is exempt from GST/HST if the unit is rented for use as a place of residence or lodging by the same individual for a period of at least one month.

### How do I determine if my establishment qualifies as a residential complex?

In order to determine the tax status of your rentals, you have to determine if your hotel, motel, inn, or similar premises is considered to be a residential complex.

If **more than 10%** of all residential units (e.g., hotel rooms, suites, apartments) in an establishment are rented for continuous possession or use for periods of 60 days or more, we consider the establishment to be a residential complex. If the establishment qualifies as a residential complex, **monthly** room rentals are exempt from GST/HST. However, although the establishment is a residential complex, room rentals for periods of **less than one month** remain taxable (if the accommodation is supplied at a rate of more than \$20 per day).

If **10% or less** of all residential units in an establishment are rented for continuous use or possession for periods of 60 days or more, we do not consider the establishment to be a residential complex. In this case, all room rentals in the hotel or similar premises are taxable under GST/HST, regardless of the rental period.

To determine if your establishment qualifies as a residential complex, you can use either the **revenue method** or the **room supply method** of calculation. If your establishment has rentals for less than 60 days **and** rentals for 60 days or more, you can choose the method that is appropriate for your specific circumstances. Both methods are described in this section.

The **time period** you use to determine whether your establishment qualifies as a residential complex is flexible. However, the period must be **reasonable** for the particular rental in question and you must use it **consistently**. We consider a one-year period appropriate. However, the period could differ depending on the nature of your operation.

If you make these calculations over a reasonable period of time, you probably will not have to revise the status of your establishment. However, if your actual operations differ from your expectations, or if your operations change, you will have to redo your calculations.

### Example

You operate a 60-room apartment hotel. During a one-year period, you use 25 rooms for rental periods of less than 60 days. Each of these 25 rooms are rented for 300 nights at a rate of \$70 per night. You rent the other 35 rooms for periods of 60 days or more. Each of these 35 rooms are rented for a total of 200 nights during the year at a rate of \$45 per night. For this example, **short-term** means less than 60 days.

#### Revenue method

Base the calculation on either daily or total revenues for rental periods of less than 60 days, and for periods of 60 days or more.

The **daily revenue calculation** is short-term daily revenue divided by total daily revenue:

Short-term daily revenue:  $(\$70 \times 25) = \$1,750$

Total daily revenue:  $(\$70 \times 25) + (\$45 \times 35) = \$3,325$

**Ratio:**.....  $(\$1,750 \div \$3,325) = \underline{53\%}$

The **total revenue calculation** is short-term total revenue divided by total revenue:

Short-term total revenue:  
 $(\$70 \times 25 \text{ rooms} \times 300 \text{ nights}) = \$525,000$

Total revenue:  
 $(\$525,000) + (\$45 \times 35 \text{ rooms} \times 200 \text{ nights}) = \$840,000$

**Ratio:**.....  $(\$525,000 \div \$840,000) = \underline{62.5\%}$

#### Room supply method

Base the calculation on identical lease periods or intervals, such as the number of room nights sold or rooms available for rent for periods of less than 60 days compared to those rented for 60 days or more.

The **number of rooms available for rent calculation** is short-term rooms divided by total rooms:

$25 \text{ rooms} \div (25 \text{ rooms} + 35 \text{ rooms}) = 25 \div 60 = \underline{42\%}$

The **number of room nights sold calculation** is short-term rentals divided by total rentals:

Total short-term:  $(25 \times 300 \text{ nights}) = 7,500$

Total all rooms:  
 $(25 \times 300 \text{ nights}) + (35 \times 200 \text{ nights}) = 14,500$

**Ratio:**.....  $(7,500 \div 14,500) = \underline{52\%}$

In the above example, the apartment hotel qualifies as a residential complex because **more than 10%** of the rooms are rented for periods of 60 days or more (i.e., the result is less than 90% for each calculation shown above).



Therefore, you would not charge GST/HST on the 35 rooms rented for 60 days or more. You would still have to charge GST/HST on the 25 rooms rented for periods of less than one month.

You would have to charge GST/HST on all the rooms if the calculations in the example had shown that **10% or less** of the rooms were rented for periods of 60 days or more.

When monthly room rentals are exempt from GST/HST, the method of room charge (e.g., daily, weekly, or monthly) makes no difference, as long as the tenant or guest has continuous use or possession of the same room for at least one month.

**Part of a building** may qualify as a residential complex while another part does not. If you identify and use specific rooms in part of a building (let us call it Part A) consistently for rental periods of 60 days or more, we consider Part A of the building to be a residential complex. As a result, monthly room rentals to individuals in Part A of the building are exempt from GST/HST, regardless of the rental periods of rooms in the other part (Part B) of the building. Unless Part B is also a residential complex, the rooms or suites in that part are GST/HST taxable, regardless of the rental periods.

## Other related charges

GST/HST applies to other charges guests may incur during their stay, regardless of the length of stay or cost of the accommodation. These include:

- room service charges;
- pay-per-view movies;
- baggage handling fees;
- room attendant fees;
- telephone charges;
- compulsory service charges for things like banquet functions;
- photocopy and facsimile charges; and
- laundry and dry cleaning charges.

**Parking** is also taxable, with two exceptions:

- parking is exempt if the parking space is part of the residential complex and the guest rents the parking space for a period of at least one month in conjunction with exempt long-term accommodation; or
- parking is exempt if the parking space is not part of the residential complex but is supplied with exempt long-term accommodation, and the charge for the accommodation and parking are billed together as one transaction.

## Gratuities

Gratuities that customers voluntarily give to employees are not taxable for GST/HST purposes. However, if you include a gratuity as a service charge on an invoice to your customer, whether it is a mandatory or a suggested amount, GST/HST applies to the service charge.

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### Example

Your sales invoice for a banquet dinner is \$1,000 plus a 15% gratuity (service charge) of \$150. You charge GST or HST on the total invoice of \$1,150.

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## Food and beverage services

You charge GST/HST on food and beverages sold in commercial food service outlets. These outlets include dining rooms, coffee shops, bars, lounges, catering and banquet departments, and room service operated by hotels, motels, and lodging houses. We also consider food service outlets operated by convention facilities to be commercial outlets. These businesses provide food services, even though such services may not be their major source of revenue.

However, the following supplies of food and beverages are zero-rated:

- food and beverages not suitable for immediate consumption (e.g., a bag of coffee beans, prepackaged frozen dinners); or
- food consisting of sweetened baked goods such as pies and cakes, muffins, tarts, doughnuts, cookies, and similar sweetened goods, not sold for consumption at the outlet and that:
  - is prepackaged for sale to consumers in quantities of **six or more** single servings; or
  - is not prepackaged, and a consumer purchases more than six items at a time.

## Banquet and catering services

GST/HST applies to food and beverages catered in banquet and meeting rooms, or at on-site locations. This means that you charge and collect GST/HST on such things as prepared platters, hot meals, and beverages. Wine-corking fees, compulsory service charges, and any other charges made to cater a banquet or meeting function are also GST/HST taxable. If you include a service charge in your invoice, collect GST/HST on the total invoice amount (including the service charge).

## Deposits

You do not collect GST/HST when a customer gives you a deposit towards a taxable purchase. You collect the GST/HST on the full price (including the deposit) when the payment for the goods or services becomes due.

If the customer does not follow through with the purchase and forfeits the deposit, the amount of the deposit becomes subject to GST/HST. In this case, we consider you to have collected GST/HST on the value of the forfeited deposit, as follow:

**Deposit is forfeited before July 2006:**

- GST is equal to 7/107 of the forfeited amount; or
- HST is equal to 15/115 of the forfeited amount.

### Deposit is forfeited on or after July 1, 2006:

- GST is equal to 6/106 of the forfeited amount; or
- HST is equal to 14/114 of the forfeited amount.

#### Example

After July 2006, an organization gives you a deposit of \$500 to reserve convention space in Oshawa, Ontario. Later, the organization cancels the contract and forfeits the deposit. We consider you to have collected GST equal to 6/106 of the amount of the deposit. As a result, you have to include \$28.30 ( $6/106 \times \$500$ ) in the total amount of GST/HST collected on your GST/HST return for that period.

If the forfeited deposit was for space in a participating province, we would consider you to have collected HST equal to 14/114 of the amount of the deposit. You would include \$61.40 ( $14/114 \times \$500$ ) in the total amount of GST/HST collected on your GST/HST return.

Customers who are GST/HST registrants, and who forfeit a deposit, may be entitled to claim an ITC for the GST/HST included in the forfeited deposit since the GST/HST included in the forfeited deposit is considered to be paid by them.

In the example above, if the organization that forfeited the deposit was a GST/HST registrant and the space being acquired was for use in the organization's commercial activities, it could claim an ITC of \$28.30 (GST). If the transaction had occurred in a participating province, they could claim an ITC of \$61.40 (HST).

## Coupons, gift certificates, and discounts

There are three categories of coupons. Each category has different tax consequences, as outlined below.

### Reimbursable coupons

A reimbursable coupon, sometimes called a manufacturer's coupon, is a fixed dollar amount coupon that entitles the vendor who redeems the coupon to be reimbursed by a third party. For example, a chain of hotels (franchisor) may reimburse a franchisee that redeems coupons that entitle a guest to a reduction of a fixed dollar amount for a night's stay at one of the chain's hotels.

You treat reimbursable coupons the same way as cash, keeping in mind that the face value of the coupon includes GST/HST.

When accepting a reimbursable coupon, remember that its value is GST/HST inclusive. If your prices do not include GST/HST, deduct the coupon amount from the total amount (price plus GST/HST) charged for the items. If you include GST/HST in your prices, deduct the value of the coupon from the GST/HST included selling price.

#### Example

GST/HST not included in the price.

Price of item	\$25.00
GST ( $\$25 \times 6\%$ )	<u>1.50</u>
Subtotal	26.50
Less coupon value	<u>(10.00)</u>
Customer pays	<u>\$16.50</u>

When you prepare your GST/HST return, report the GST charged on the sale (\$1.50). The value of the coupon does not have to be reported separately.

If you reimburse a vendor for redeeming your reimbursable coupons, you may claim an ITC for the tax fraction of the coupon value.

If you use a reimbursable coupon to make taxable (other than zero-rated) purchases for your business, you have to reduce the amount of any ITCs you claim on your purchases by the tax fraction of the face value of the coupon. In this case, the amount of the reduction will be 14/114 (before July 2006, 15/115) of the coupon's face value if redeemed in a participating province, or 6/106 (before July 2006, 7/107) if the coupon is redeemed in the rest of Canada.

### Non-reimbursable coupons

A non-reimbursable coupon is a coupon that entitles a customer to a fixed dollar amount or a fixed percentage reduction in the price of a taxable (other than zero-rated) supply. These coupons are sometimes referred as vendor coupons. The issuer has the choice of whether or not to include GST/HST in the face value of these coupons.

If the coupons are **GST/HST-included**, treat them the same way as you treat reimbursable coupons. You deduct the value of the coupons from the total amount (price plus GST/HST) charged for the item purchased. When you prepare your GST/HST return, report the full amount of GST/HST you charged without considering the value of the coupons.

Where the non-reimbursable coupon is GST/HST included, you can claim an ITC on your GST/HST return for the tax fraction of the coupon value.

#### Tax fraction before July 2006:

- GST is equal to 7/107; or
- HST is equal to 15/115.

#### Tax fraction on or after July 1, 2006:

- GST is equal to 6/106; or
- HST is equal to 14/114.

For example, if you accept a coupon of \$10.00 that is a non-reimbursable coupon entitling the customer to a tax included reduction of the price of your product, on or after July 1, 2006, in a participating province, you can claim an ITC of \$1.23 ( $14/114 \times \$10.00$ ). Claim the ITC on your GST/HST return for the reporting period in which you redeemed the non-reimbursable coupons.

If the coupon value does **not include GST/HST**, deduct the value of the coupons from the selling price before calculating GST/HST.

Total price of item	\$25.00
Less coupon value	<u>(5.00)</u>
Total sale	20.00
HST (\$20 × 14%)	<u>2.80</u>
Customer pays	<u>\$22.80</u>

In this case, when you file your GST/HST return, report the GST/HST you charged on your sales after you deduct the coupon from the purchase price (\$2.80 in the above example). You cannot claim ITCs for coupons you issue that do not include GST/HST.

If you use a non-reimbursable coupon to make taxable (other than zero-rated) purchases for your business, and the coupon is GST/HST-included, you have to reduce the amount of any ITCs you claim on your purchases. In this case, the amount of the reduction will be  $14/114$  (before July 2006,  $15/115$ ) of the coupon's face value if redeemed in a participating province, or  $6/106$  (before July 2006,  $7/107$ ) if the coupon is redeemed in the rest of Canada.

## Other coupons

Other types of coupons (whether reimbursable or not) are treated as reducing the selling price of an item before GST/HST is calculated.

An example of this type of coupon is a coupon that entitles the customer to an item at no charge if another item is purchased (such as two-for-one coupons).

Any coupon that does not come within the definition of a reimbursable or a non-reimbursable coupon is treated as reducing the selling price, i.e., GST/HST is calculated on the selling price net of the coupon value.

For example, if you operate a restaurant in your hotel and offer two-for-one coupons that entitle customers to a free meal when they buy another meal of equal or greater value, do not charge GST/HST on the value of the free meal. Deduct the value of the coupon from the price for two meals before calculating the GST/HST payable by the customer.

### Example

Two customers present a two-for-one coupon for their restaurant meals. They pay \$9.95 for one meal and get the second meal free. Therefore, you charge GST/HST on \$9.95.

## Gift certificates

A gift certificate is a document such as a voucher, that:

- usually has a stated monetary value (e.g., \$20);
- may be redeemed for a product or service or towards the purchase of a product or service for stated value (i.e., the vendor accepts the certificate as money towards the purchase);
- is sold or issued for money, or other consideration; and
- has no intrinsic value.

You do not collect GST/HST on the sale of a gift certificate. When you redeem a gift certificate on a purchase, calculate and account for the GST/HST payable on the full price of the item. The gift certificate is treated like cash.

### Example

You rent a room in Newfoundland and Labrador for \$59 and the guest gives you a \$10 gift certificate towards the price of the room.

Room charge	\$59.00
HST payable (\$59 × 14%)	<u>8.26</u>
Subtotal	67.26
Less: gift certificate	<u>(10.00)</u>
Guest owes	<u>\$57.26</u>

## Discounts

Do not charge GST/HST on rooms you offer free of charge. If you offer a discount, GST/HST applies on the net room rate after the discount. For example, if a room rate is regularly \$99 and you offer a weekend special for \$79, charge GST/HST on \$79.

## Third-party transactions

Some hotels make arrangements with independent operators, such as a parking lot or restaurant operator, to allow hotel guests to charge their purchases to their hotel bill. The independent operator invoices the hotel for these purchases. The hotel pays the independent operator and adds the amount it paid to the guest's hotel bill. In this situation, **if the hotel is not acting as the independent operator's agent**, we consider two separate sales to have occurred. First, the independent operator sells a good or service to the hotel. Second, the hotel sells the good or service to its guests.

### Example 1

A parking lot is located next to your hotel in Moose Jaw, Saskatchewan. You arrange with the independent lot operator to allow your guests to park in this lot. The lot operator will bill you for your guests' parking. In turn, you will add the cost of the parking to the guests' room bills.

You report the total amount of GST charged for room and parking on your GST/HST return. You can also claim an ITC for the GST you paid or owe the parking lot operator for your guests' parking charges.

### Example 2

A company books a meeting room in your hotel in Fredericton, New Brunswick. Along with the room, the company requires the use of audio-visual equipment. You rent audio-visual equipment from a local independent supplier and supply it to the company for the meeting. The independent supplier invoices your hotel for the equipment rental. You pay HST to the independent supplier and claim an ITC for it. You invoice the company and you report the HST charged on your GST/HST return.

In other situations, your hotel may **act as an agent** for a guest. For example, a guest hires a courier company to pick up an item at the hotel. The guest leaves the item at the hotel reception desk and instructs your staff to give the item to the courier and pay the courier fee. You then include the amount you paid the courier on the guest's hotel bill. In such cases, you do not charge GST/HST on the amount you bill the guest.

## Travel agencies

Travel agencies usually act as agents for other travel-service providers and are paid a commission for their services. Travel agents charge and account for GST/HST on commissions (received from travel-service providers) for the services they provide in Canada.

At times, travel agents are considered to be principal suppliers. For example, if you are a travel agent, and you buy a block of airline seats and hotel rooms for resale, you are acting as a principal supplier and not as a travel agent. If the airline seats and hotel rooms are taxable (other than zero-rated), you have to charge GST/HST at the time of resale.

## Commissions

If you act as an agent in the provision of a supply of a zero-rated passenger transportation service, the commission you receive for this service is zero-rated. For example, you do not charge GST/HST for the service of acting as agent to an airline in issuing tickets for a zero-rated international flight from Toronto to Paris. Also, the services of issuing, delivering, amending, replacing, or cancelling a ticket, voucher, or reservation for this service are zero-rated.

If you are a travel agent and you provide a service to a non-resident person, your commission is also zero-rated when:

- the service is in respect of a zero-rated sale of exported goods or services to the non-resident; or
- the service is in respect of a sale made outside Canada by or to the non-resident.

### Example 1

A Canadian travel agent makes a reservation for an individual to have accommodation at a hotel in France. Since the supply is made outside Canada, the commission the hotel pays to the Canadian travel agent is zero-rated.

If you are a travel agent and you provide a service to a non-resident person that relates to a supply made in Canada, your commission is subject to GST or HST, depending on the place of supply.

### Example 2

A travel agent in Yarmouth, Nova Scotia, books hotel accommodation in Canada for a non-resident tour operator. The agent charges HST on the commission payable by the non-resident because the service is supplied in a participating province.

### Example 3

A travel agency located in Ottawa, Ontario, receives a commission from a hotel located in Cape Breton, Nova Scotia, for booking reservations. The commission is subject to GST because the service is provided **outside** a participating province.

## Collecting and remitting GST/HST

Travel agents charge, collect, and remit GST/HST on their taxable (except zero-rated) commissions for services provided in Canada to other travel-service providers. Travel agents also charge and collect GST/HST that applies to each travel service. However, the principal supplier of the travel service is responsible to charge, collect, and account to us for GST/HST, when applicable, on the sale of their travel services made by the travel agency.

### Example

A travel agency in Ontario sells two domestic airline tickets for \$1,400 (\$700 each) for travel from Toronto to Calgary. The agency collects from the purchaser (customer), on behalf of the airline carrier, the total purchase price for the tickets, plus GST. The agency forwards this amount, minus the commission and GST on the agency's commission, to the airline carrier. The agency's commission is 8.25% of the selling price of the ticket, not including GST.

<b>Sample invoice by travel agency</b>	
Airline tickets (2 × \$700)	\$1,400.00
GST (\$1,400 × 6%)	<u>84.00</u>
Amount paid by customer	<u>\$1,484.00</u>
Commission: \$1,400 × 8.25% =	\$115.50
GST: \$115.50 × 6% =	<u>6.93</u>
Subtotal:	<u>\$122.43</u> (122.43)
Net proceeds due to airline carrier:	<u>\$1,361.57</u>

On its GST/HST return, the travel agency reports the \$6.93 GST it charged the airline carrier on its commission. The airline carrier reports the \$84 GST that the customer paid on the airline ticket. It can also claim \$6.93 as an ITC for GST it paid on the travel agency's commission.

## Passenger transportation services

Passenger transportation services are services provided by a generally accepted mode of transportation, such as bus, train, aircraft, or boat. We also consider the supply of a bus and driver for transporting a group of individuals with a specific itinerary as a passenger transportation service. The bus company's invoice should indicate the route the bus will follow to determine whether GST or HST applies to the transportation service, or if the service is zero-rated.

Ski lifts, horseback rides, hot-air-balloon rides, and hang gliding are not considered passenger transportation services. Vehicle rentals that the traveller operates and controls, such as automobiles, motor homes, motorcycles, bicycles, snowmobiles, all-terrain vehicles, and other recreational vehicles, are also not considered to be passenger transportation services.

## Taxable transportation services

### Domestic transportation services

Generally, GST/HST applies to all modes of transportation services provided in Canada. This includes, for example, transportation by bus between two Canadian cities.

#### Exception

Municipal transit services are exempt from GST/HST.

A passenger transportation service is considered to be made in a participating province and subject to HST if it meets **all** of the following conditions:

- It is considered to be part of a continuous journey.
- The ticket or voucher issued for the first transportation service that is part of the continuous journey specifies that the trip origin is in a participating province.
- The termination and all stopovers connected to the continuous journey are in Canada.

If the origin of the first passenger transportation service is not specified on the ticket or voucher, the transportation service is subject to HST if the vendor's place of negotiation (e.g., the office from which the ticket is sold) is in a participating province.

#### Example

A student purchases an open rail pass from you, the travel agent, at your office in Edmundston, New Brunswick. The place of origin is not specified on the ticket. The student can travel anywhere in Canada by train. Therefore, HST applies because the place of negotiation for the pass takes place in a participating province.

A Canadian passenger transportation service is subject to GST if it meets **all** of the following conditions:

- It is considered to be part of a continuous journey.
- The ticket or voucher issued for the first transportation service that is part of the continuous journey specifies that the trip origin is within Canada and outside the participating provinces.
- The termination and all stopovers are in Canada.

## Supervising an unaccompanied child

If you provide a service of supervising an unaccompanied child while providing the child with a taxable passenger transportation service, the service of supervising the child is treated as being made in the same province as the passenger transportation service. For example, the separate charge made by an airline for the supervision of an unaccompanied child on a flight from Halifax, Nova Scotia, to Ottawa, Ontario is treated as being made in the same province as the passenger transportation service. Since the ticket shows that the origin of the flight is in Nova Scotia, the service of supervising the child is also treated as being made in Nova Scotia. In this case, both the child's passenger transportation and supervision are subject to HST.

## Transporting an individual's baggage

If you provide a service of transporting an individual's baggage, and the service is provided in conjunction with the taxable passenger transportation service of that individual, the baggage transportation service is treated as being made in the same province as the passenger transportation service. Where the passenger transportation service is treated as being made in a participating province, the baggage transportation service is also treated as being made in a participating province and is therefore subject to HST. Where the passenger transportation is treated as being made in a non-participating province, the baggage transportation service is treated as being made in a non-participating province and is subject to GST.

## Related services

Related services include the service of issuing, delivering, amending, replacing, or cancelling a ticket, voucher, or reservation for a transportation service. If you provide a related service in Canada for a taxable passenger transportation service that you supplied, the related service is treated as being made in the same province as the passenger transportation service.

Consequently, where the passenger transportation service is treated as being made in a participating province, the related service is also treated as being made in a participating province and is subject to HST. Where the passenger transportation service is treated as being made in a non-participating province, the related service is also treated as being made in a non-participating province and is subject to GST.

A related service for a taxable passenger transportation service is not subject to GST/HST where it is supplied outside of Canada.

## Trans-border air travel

Passenger air transportation originating in Canada for travel in the taxation area is subject to GST/HST. However, if the journey originates in the taxation area but outside Canada (such as in the United States), the air transportation is zero-rated. The payment is not required to be made outside Canada for this type of journey to be zero-rated.

HST applies to passenger air transportation if it meets **all** of the conditions described in the section “Domestic transportation services” on page 13.

Passenger air transportation that originates in a participating province, terminates within the taxation area, and that includes a stopover in the taxation area but outside Canada, is subject to GST.

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### Example

A person buys a return air ticket with a routing from Halifax to New York. You charge the person GST because the flight is within the taxation area. You do not charge HST because the stopover is outside Canada.

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In the example above, if the flight went to Paris, France, instead of New York, the flight would be zero-rated, since it has a stopover outside the taxation area.

## Trans-border day trips

When both the origin and destination are in Canada and the traveller is not scheduled to be outside Canada for more than 24 hours, trans-border day trips by land or water (air travel not included) are subject to GST/HST. Examples include:

- a boat tour beginning and ending in Canada along the St. Lawrence Seaway, with a stop in the state of New York (subject to GST);
- a bus tour beginning and ending in Canada, which starts on the Cabot Trail in Nova Scotia, and has a stop in the state of Maine (subject to HST);
- a one-day, round-trip bus excursion from British Columbia to the state of Washington (subject to GST); and
- a 22-hour Bay of Fundy round-trip excursion from Saint John, New Brunswick, to Boston, Massachusetts (subject to HST).

## Zero-rated transportation services

### International journey without air travel

Except for trans-border day trips, if there is no air travel, all tickets issued for an international continuous journey are zero-rated when the origin or destination, or at least one stopover, is outside Canada. This includes transportation by bus, train, and boat between Canada and the United States. However, it does not apply to international day trips originating in non-participating provinces (subject to GST), nor does it apply to international day trips originating in participating provinces (subject to HST).

## International journey with air travel

Four types of international continuous journeys involving air travel are zero-rated:

- origin, destination, or any stopover is outside the taxation area;
- origin, destination, and all stopovers are outside Canada;
- all places a traveller boards or leaves an aircraft are outside Canada, and the origin or termination, or at least one stopover of the continuous journey, is outside Canada; or
- origin is in the taxation area but outside Canada, and the payment for the transportation service is not required to be made outside Canada.

## Continuous journey

Whether or not a trip is a continuous journey determines if an otherwise taxable domestic passenger transportation service can be zero-rated as part of an international journey.

### Single ticket

If more than one passenger transportation service is provided on a single ticket or voucher, we treat all of the transportation services as part of a continuous journey, and each has the same GST/HST status. For a continuous journey including air travel, as long as there is at least one overseas origin, destination, or stopover, all passenger transportation services included in the ticket are zero-rated. Stopovers in Canada do not affect the GST/HST status of transportation services on a single ticket.

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### Example

A Canadian travel agent sells one return air ticket departing from Montréal to Tokyo. The ticket includes stops in Toronto and Vancouver for two days each. The entire ticket is zero-rated because there is an overseas destination.

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### Two or more tickets

If you provide more than one type of passenger transportation service and you issue separate tickets or vouchers for the different legs of the journey, all of the legs may be considered part of a continuous journey if **all** of the following conditions are met:

- You sell the transportation services to be provided in Canada together with a zero-rated international passenger transportation service.
- The traveller receives all the tickets or vouchers from the same supplier, or from the same travel agent acting on behalf of two or more suppliers.
- All tickets or vouchers are for the same traveller.
- There is no stopover between any legs of the journey for which you issue separate tickets or vouchers.
- You or your agents can show us that you have met all the above conditions.

This means that domestic passenger transportation services can be zero-rated if you sell them as part of a zero-rated international continuous journey.

### Duration of stop

If a stopover is more than 24 hours, the supplier or travel agent has to show that the stop is for servicing or refuelling the conveyance, or for the traveller to transfer to another conveyance. A stop of 24 hours or less between two legs of a journey, where separate tickets are issued, is not considered to be a stopover.

#### Example

A registered tour operator sells a traveller a one-way rail ticket from Halifax to Moncton, and a one-way bus ticket from Moncton to Boston. If the traveller is scheduled to embark on the bus within 24 hours of arriving in Moncton, both the bus and rail tickets can be zero-rated as part of a continuous journey from Halifax to Boston. Therefore, although separate tickets were issued for each mode of transportation, the tour operator does not charge GST/HST on either ticket.

### Round trips

One stopover is allowed on zero-rated round trips to or from Canada if you can separate the itinerary into two continuous journeys: the **inbound** and the **outbound**.

#### Example

A tour operator sells a tour package that includes a return train ticket from Kingston to Montréal, and a return flight from Montréal to Paris, France. The domestic leg, from Kingston to Montréal and return, could be zero-rated even if there was one stopover in Montréal either before or after the flight to Paris. If there was a stopover in Montréal both before and after the overseas trip, the train ticket would be subject to GST.

The above example shows that for the transportation service provided in Canada to qualify for zero-rating, it must be part of at least one single continuous journey, either inbound or outbound, during the overall trip. Otherwise, GST/HST applies.

### Supervising an unaccompanied child

If you provide a service of supervising an unaccompanied child while providing the child with a zero-rated passenger transportation service, the service of supervising the child will also be zero-rated. For example, the separate charge made by an airline for the supervision of an unaccompanied child on a flight from Toronto, Ontario, to Paris, France, is zero-rated since the airline's charge for the child's airline ticket is zero-rated.

This service will be zero-rated if it is provided during one or more legs of the child's continuous journey. For example, the separate charge made by a carrier for the supervision of a child on a flight from Edmonton to Vancouver is zero-rated if that flight forms part of the child's continuous journey from Edmonton to Tokyo. This remains effective even if the carrier does not supervise the child during the leg of the journey from Vancouver to Tokyo, on which the child is accompanied by his or her parents.

### Transporting an individual's baggage

If you provide a service of transporting an individual's baggage, and the service is provided in conjunction with the zero-rated transportation service of that individual, the baggage transportation charge will also be zero-rated.

### Related services

The service of issuing, delivering, amending, replacing, or cancelling a ticket, voucher, or reservation is zero-rated if it is provided by the supplier of the passenger transportation service, and is in conjunction with the service of providing zero-rated passenger transportation.

### Sales of domestic transportation services to non-residents

Under the continuous journey rule, a Canadian travel-service provider can charge tax at 0% on domestic passenger transportation that is sold to unregistered non-resident travel-service providers such as non-resident tour operators.

To qualify for zero-rating, **two** conditions must be met:

- The non-resident tour operator has to resell the domestic transportation service to an individual as part of a zero-rated continuous journey.
- An individual has to use the transportation as part of a zero-rated continuous journey.

The Canadian supplier must get proof from the non-resident tour operator that the transportation services will be resold as part of a zero-rated continuous journey. Acceptable proof includes a passenger list, tour itinerary, and a certificate of zero-rated entitlement.

The passenger list must contain the names **and** addresses of the travellers. However, the Canadian supplier can agree that the non-resident will keep the passenger list and provide it on request.

A tour itinerary describes all elements of the journey, including the origin, destination, stopovers, arrival, and departure dates, and all modes of transportation, such as train, aircraft, bus, or boat.

The following certificate of zero-rated entitlement is an example of the information required.

To: _____ (name and address of registered supplier of travel service)
We certify that we have ordered from you the following transportation services: _____ _____ (detailed description of the required services the Canadian supplier will provide)
We will use these services to provide one or more package tours constituting part of a continuous journey, which will qualify for zero-rated status under Part VII of Schedule VI of the <i>Excise Tax Act</i> (Canada). We will pay any GST/HST for any journey found to be properly taxable during an audit of _____ (name of registered Canadian supplier)
_____ (name and address of non-resident tour operator)
Dated at _____ this _____ day of, _____ 200_
By: _____ (name of authorized officer of non-resident tour operator)

The Canadian supplier must determine if the zero-rated continuous journey criteria are met, or if GST/HST has to be charged. Sometimes the sale of the transportation service happens before the non-resident tour operator assembles and sells the tour package to individual travellers. In this case, Canadian travel service providers can accept an interim certificate or other declaration of intent from the non-resident tour operator. The non-resident tour operator must follow up the interim document with proof that the zero-rated continuous journey criteria have been met.

If the Canadian supplier determines that a transportation service does not meet the zero-rating criteria, the non-resident tour operator has to pay the applicable GST/HST. There is no refund for GST/HST paid or payable on taxable transportation services that are not part of a zero-rated continuous journey.

## Sales of taxable goods and services on board conveyances in Canada

If, while providing a passenger transportation service, you sell taxable goods and services on board a conveyance during a leg of a journey that begins and ends in a participating province, the onboard supply is considered to be made in a participating province, and is therefore subject to HST. For these purposes, a leg of a journey is considered to be part of the journey between stops for passenger embarking or disembarking, or for fuelling or servicing the conveyance.

### Example

A traveller buys an airline ticket for travel from Cornerbrook, Newfoundland and Labrador, to Toronto, Ontario, via Saint John, New Brunswick. The traveller buys a glass of wine on the first leg of the journey to Saint John, New Brunswick. The traveller has to pay HST on the glass of wine. If the traveller buys another glass of wine on the second leg of this flight, GST applies.

If, while providing a passenger transportation service, you sell taxable goods and services on board a conveyance during a leg of a journey that is not zero-rated, and that does not begin and end in a participating province, the onboard supply is not considered to be made in a participating province. Therefore, the onboard sale is subject to GST.

## Sales of goods and services on board conveyances in international travel

For GST/HST purposes, an international flight is a flight of a commercially-operated aircraft that either begins or ends outside Canada. Similarly, an international voyage is a voyage of a commercially-operated vessel that either begins or ends outside Canada.

If you sell goods and services to individuals while providing them with a passenger transportation service on an international flight or voyage, the goods and services are considered to be purchased outside of Canada. Since the purchase is considered to be made outside Canada, it is not subject to GST/HST.

## Tour operators

Tour operators usually buy or reserve blocks of services such as airline seats, hotel rooms, or sightseeing excursions, at volume discount prices. They assemble these items into individual tour packages to resell to travellers at an all-inclusive price. Usually they resell the tour packages through travel agencies on a commission basis.

## Tour packages

Tour packages may be taxable at the rate of 0%, 6%, or 14%. As a tour operator, you have to identify the tax rate that applies to each portion of the tour packages you sell in order to determine the GST/HST to be collected. Transportation, accommodation, and other supplies that are taxable (other than zero-rated supplies) are included in the taxable portion of a tour package.

## Domestic tours

### Same rate of tax

When you sell an entirely Canadian tour and all of the parts of the tour are taxable at the same rate (either 6% or 14%), you charge that percentage of the GST/HST on the total selling price of the tour package. You can claim an ITC for the GST/HST you paid or owe on the individual travel services you purchased and included in the tour package.

### Example

A tour operator assembles GST taxable round-trip airfare, hotel accommodation, and a bus excursion into a domestic tour package. The tour operator adds a 20% mark-up to the cost (not including GST) of the services.



### Tour operator's purchases

3 double hotel rooms in Saskatoon	\$600.00
6 airline tickets (all user fees included)	2,100.00
6 bus tickets – excursion	<u>200.00</u>
Subtotal	\$2,900.00
GST (\$2,900 × 6%)	<u>174.00</u>
Tour operator pays	<u>\$3,074.00</u>

### Tour operator's charges

Cost after claiming ITC of \$174	\$2,900.00
20% mark-up (\$2,900 × 20%)	<u>580.00</u>
Subtotal	\$3,480.00
GST (\$3,480 × 6%)	<u>208.80</u>
Customer pays	<u>\$3,688.80</u>

GST of \$208.80 will be reported on the tour operator's GST/HST return. GST of \$174 incurred to assemble the tour package may be claimed as an ITC.

## Combined rates of tax

When you sell an entirely Canadian tour, which includes a combination of travel services only taxable at 6% GST and 14% HST, the travel services have to be prorated so that you can determine the total tax payable on the tour.

### Example

A registered tour operator sells a 10-day package that includes a return flight from Vancouver, British Columbia, to Halifax, Nova Scotia, and hotel accommodation in Halifax. GST applies to the airfare component of the package because the flight originates from a non-participating province. HST applies to the hotel accommodation. The tour operator has a 20% profit margin.

Component	Cost	Profit margin (20%)	Selling price
Round-trip airfare	\$600	\$120	\$720
Hotel	\$900	\$180	\$1,080
Total	\$1,500	\$300	\$1,800

The GST taxable portion of the tour is 40% of the cost to the tour operator ( $\$600 \div \$1,500 = 40\%$ ). Therefore, GST applies to 40% of the tour operator's selling price. The HST taxable portion of the tour is 60% of the cost to the tour operator ( $\$900 \div \$1,500 = 60\%$ ). Therefore, the tax to be paid on the selling price of the tour is as follows:

Total selling price	\$1,800.00
GST ( $\$1,800 \times 40\% \times 6\%$ )	43.20
HST ( $\$1,800 \times 60\% \times 14\%$ )	<u>151.20</u>
Customer pays	<u>\$1,994.40</u>

## Tours combining taxable and non-taxable services

When you sell a tour that includes a combination of taxable and non-taxable travel services, the travel services have to be identified separately. The cost of the taxable portion of the tour package then has to be prorated as a percentage of total cost of the tour so that you can determine the total tax payable on the selling price of the tour.

The taxable portion of a tour package is the portion that would be subject to GST/HST if the traveller purchased the service directly. Transportation, accommodation, and other supplies that are taxable at 6% or 14%, are included in the taxable portion of a tour package. For these purposes, the non-taxable portion of a tour package includes zero-rated passenger transportation **and** accommodation and other services provided outside Canada.

The taxable portion of the tour package is known as the **initial taxable percentage**. To calculate the initial taxable percentage, divide the cost of taxable services by the total cost of all the services included in the package.

### Example

A registered tour operator sells a one-week package to a traveller. The package includes a flight from Winnipeg, Manitoba, to Orlando, Florida, hotel accommodation, and a sightseeing excursion in Orlando. The airfare component represents the taxable part of the package on which GST is charged. The tour operator can claim an ITC for the GST payable on this service.

### Tour operator's purchases

Round-trip flight from Winnipeg to Orlando (taxable at 6%)	\$550.00
Accommodation and sightseeing (non-taxable)	<u>300.00</u>
Subtotal	\$850.00
GST paid to suppliers ( $\$550 \times 6\%$ )	<u>33.00</u>
<b>Tour operator pays</b>	<b><u>\$883.00</u></b>

Tour operator's cost after ITC of \$33.00	\$850.00
Tour operator's mark-up ( $\$850 \times 20\%$ )	<u>170.00</u>
<b>Subtotal (selling price before GST)</b>	<b><u>\$1,020.00</u></b>

### Initial taxable percentage

Cost of taxable services ÷ total cost

$$\$550 \div \$850 = 65\%$$

$$\text{Subtotal: } \$1,020 \times 65\% = \$663$$

<b>GST on tour</b> ( $\$663 \times 6\%$ )	<u><b>\$39.78</b></u>
Customer pays	<u><b>\$1,059.78</b></u>

Prorating ordinarily is required only once in respect of any tour package. If the combination of taxable and non-taxable services does not change by more than 10 percentage points, the tour operator can continue to use the initial

taxable percentage to determine the amount to collect tax on (even if a discount is offered). For example, if the tour operator sells the tour package for \$900, the taxable percentage would remain at 65%. The tour operator would charge GST on \$585 ( $\$900 \times 65\%$ ).

Furthermore, if the tour operator sells the tour package to a travel agent, the initial taxable percentage should be used to determine the part that is GST/HST taxable when the same tour package is resold.

### Change in taxable and non-taxable travel services

If you modify a tour package and this causes a change in the combination of taxable and non-taxable travel services, you may have to use a different taxable percentage to calculate GST/HST on the modified package. For example, if more days are added to a tour package and this results in a taxable percentage increase or decrease of more than 10 percentage points (such as from 30% to 48%), you have to adjust the taxable percentage for calculating tax.

#### Example

The original tour package the tour operator assembles includes a flight from Toronto, Ontario, to New Orleans, Louisiana, accommodation, and a sightseeing excursion.

#### Tour operator's original direct cost of services

Round-trip flight (taxable at 6%)	\$400
Accommodation (non-taxable)	400
Sightseeing excursions (non-taxable)	<u>300</u>
Subtotal	\$1,100
Add: GST paid to suppliers ( $\$400 \times 6\%$ )	<u>24</u>
Tour operator pays	\$1,124
Less: ITC for GST paid	<u>24</u>
Tour operator's direct cost of services	<u>\$1,100</u>

The initial taxable percentage of the package is 36% ( $\$400 \div \$1,100$ ). The tour operator charges GST on 36% of the selling price.

#### Tour operator's original sale and GST calculation

Tour operator's direct cost of services	\$1,100.00
Add: Tour operator's mark-up of 20% ( $\$1,100 \times 20\%$ )	<u>220.00</u>
Subtotal before GST	\$1,320.00
Taxable portion ( $\$1,320 \times 36\%$ ) = \$475.20	
GST: ( $\$475.20 \times 6\%$ )	<u>28.51</u>
Total charged to customer	<u>\$1,348.51</u>

Later, the tour operator repackages the tour by excluding the sightseeing excursion from the original package.

#### Tour operator's revised direct cost of services

Round trip flight (taxable at 6%)	\$400
Accommodation (non-taxable)	<u>400</u>
Subtotal	\$800
Add: GST ( $\$400 \times 6\%$ )	<u>24</u>
Tour operator pays	\$824
Less: ITC for GST paid	24
Tour operator's direct cost of services	<u>\$800</u>

#### Tour operator's revised sale and GST calculation

The revised taxable percentage of the tour package is 50% ( $\$400 \div \$800$ ). The tour operator charges GST on 50% of the selling price ( $\$960 \times 50\% = \$480$ ).

Tour operator's direct cost of services	\$800.00
Add: 20% mark-up ( $\$800 \times 20\%$ )	<u>160.00</u>
Subtotal before GST	\$960.00
Add: GST based on taxable percentage	
GST is ( $\$480 \times 6\%$ )	<u>28.80</u>
Total charged to customer	<u>\$988.80</u>

The difference between the initial taxable percentage of 36% and the new percentage of 50% is more than 10 percentage points. Therefore, the tour operator has to use the new percentage to calculate GST on the modified tour package. If the tour operator offers a discount on the modified tour package, the taxable part remains at 50% of the discounted price.

You have to keep records to show how you calculated the taxable percentage of tour packages. It is your responsibility to make sure the travel agency acting on your behalf collects the correct amount of GST/HST from the customer.

### Foreign tours

Travel-service providers do not charge GST/HST on exclusively foreign tour packages. For example, a tour operator does not charge the traveller GST/HST on a tour package that includes round-trip airfare from Canada to Scotland, as well as hotel accommodation and bus excursions in Scotland. In this case, the airfare is zero-rated. The hotel accommodation and bus excursions in Scotland are not subject to tax because they are supplied outside Canada.

## Conventions

### Canadian travel-service providers

As a Canadian travel-service provider (such as a convention organizer or hotel operator) who is a GST/HST registrant, you have to charge GST/HST on the lease or rental of space for a meeting, convention, exhibition, symposium, or conference. If you also provide related convention supplies, or if you purchase them from an independent supplier and resell or provide them to the sponsor or organizer of the event, you must charge and collect GST/HST on the amount you charge the sponsor or organizer. However, sponsors and unregistered organizers of foreign conventions can recover the tax paid for short-term accommodation, meeting rooms, exhibition space, and related convention supplies. They may file a refund application form directly with us or, in some cases, receive a credit for the amount of tax from you. For more information, see the section “Non-resident tax refund” on page 20.

**Related convention supplies** are goods and services acquired, imported or brought into a participating province by a person exclusively for consumption, use, or supply in connection with a convention, such as:

- audio-visual services;
- exhibit design, display, and advertising services;
- business equipment rentals; and
- floral and other decorations.

There are also some exclusions as to what goods or services can be included as related convention supplies. For more information, see the section “Non-resident tax refund” on page 20.

### Canadian travel-service providers and non-resident exhibitors

Canadian convention facility operators, hotel operators, organizers, or incentive houses who are GST/HST registrants have to charge GST/HST to non-resident exhibitors for the lease, licence, or use of convention facilities, and sales of related convention supplies. You charge GST/HST to the non-resident exhibitors if you are a Canadian travel-service provider at either a domestic or a foreign convention. Non-resident exhibitors who are not GST/HST registrants can claim a refund for tax paid on the use of the convention facility and certain related convention supplies. To claim their refund, non-registrant, non-resident exhibitors should complete Form GST386, *Refund Application for Foreign Conventions*. For more information, see our booklet RC4160, *Tax Refund for Non-Resident Travel Organizers and Foreign Conventions*. The booklet includes Form GST386.

#### Note

Canadian travel-service providers cannot credit GST/HST directly to non-resident exhibitors or delegates.

### Convention sponsors and non-resident exhibitors

If you are a registrant sponsor of either a foreign or a domestic convention, you do not charge GST/HST to non-resident exhibitors for the lease, licence, or use of a convention facility or related convention supplies (except for food, beverages, and catering). In this case, non-resident exhibitors cannot claim a GST/HST refund in respect of these supplies since they do not pay tax on them.

### Sponsors of foreign conventions

As a sponsor of a **foreign convention**, you cannot register for GST/HST if your **only** commercial activity in Canada is making sales of admissions, exhibition space, or related convention supplies at a foreign convention. If you are already registered for GST/HST, we do not consider these activities to be part of your overall commercial activities. You may, however, claim a tax refund in respect of these activities. For more information, see the section “Tax refund for foreign conventions” on page 22.

If you sell books, posters, education material, or other goods at the foreign convention, you may have to register for GST/HST for these sales. You have to do so if you are carrying on business in Canada and your total taxable worldwide revenues (not including the convention registration fees and exhibitors fees) over the past four consecutive calendar quarters (or in any one calendar quarter) were more than CAN\$30,000 (or CAN\$50,000 if you are a public service body). However, if the total annual revenues are not more than these CAN\$30,000 or CAN\$50,000 thresholds, you do not have to register for GST/HST for sales of these goods at the foreign convention. However, you can register voluntarily. For more information about registering, collecting, and remitting GST/HST, see our guide RC4027, *Doing Business in Canada – GST/HST Information for Non-Residents*.

### Exhibitors

As the sponsor of a foreign convention, you do not charge GST/HST on the supply of exhibition space and related convention supplies sold to exhibitors.

### Delegates

If you are the sponsor of a foreign convention, you do not charge GST/HST on the admissions you sell to the convention delegates.

### Sponsors of domestic conventions

For the purposes of this guide, a domestic convention is a convention that does not meet the definition of a foreign convention.

If you are a non-resident sponsor of a convention of which more than 25% of the delegates at the convention are reasonably expected to be Canadian residents, and if you are not already registered for GST/HST, you will have to register for GST/HST before the convention takes place.

## Non-resident delegates

If you are a registrant sponsor of a domestic convention, you do not have to charge **as much** GST/HST on taxable convention **admissions** sold to non-resident delegates as you have to charge resident delegates.

To determine how much GST/HST to charge non-resident delegates, calculate the total costs that are reasonably attributable to the provision of the convention facility or related convention supplies as a percentage of your total convention costs. This percentage of the admission charged to non-resident delegates is **not** GST/HST taxable.

### Example

The total expenses you incurred as a sponsor of a convention in Camrose, Alberta, were \$100,000, of which \$60,000 are related to providing the convention facility and related convention supplies.

$$\$60,000 \div \$100,000 = 60\%$$

Therefore, 60% of the admission to non-resident delegates is not GST taxable. As a result, you collect GST on 40% of the admission you charge each non-resident delegate.

Canadian residents		Non-residents	
Admission	\$100	Admission	\$100.00
GST	<u>6</u>	GST (\$6 × 40%)	<u>2.40</u>
Total	<u>\$106</u>	Total	<u>\$102.40</u>

To calculate the portion of the admission to non-resident delegates that is not subject to GST/HST, your calculation of related convention supplies also includes 50% of your costs for food, beverages, and catering services incurred for the convention.

## Non-resident tax refund

**N**on-residents who visit Canada may qualify for a refund of the tax paid on eligible short-term or camping accommodation, or tour packages that include eligible short-term or camping accommodation. The refund may also be claimed for tax paid on certain goods as well as convention related accommodation and expenses.

**Eligible accommodation** is accommodation provided at an establishment such as a hotel, motel, resort, lodge, or bed-and-breakfast establishment, that is provided continuously for periods of less than one month to the same individual.

**Camping accommodation** means a campsite at a campground or recreational trailer park that is provided continuously for periods of less than one month to the same individual. It includes water, electricity, and waste disposal services if accessed by means of an outlet or hook-up at the campsite, and if supplied with the campsite.

Eligible short-term accommodation **does not** include:

- services and incidentals such as room service and telephone charges;
- lodging on boats, such as a houseboat;
- rentals of travel trailers and all recreational vehicles;
- cruises-ship cabins and train berths;
- accommodation under a time-share arrangement; or
- accommodation included in the non-taxable part of a tour package (such as hotel accommodation provided outside Canada).

## Tax refund for non-resident individual and business travel

### Individual travellers

Most non-resident individual travellers can get a refund of tax paid on eligible accommodation and camping accommodation as described above. This includes eligible accommodation and camping accommodation, which is purchased as part of a tour package. A refund may also be claimed in respect of eligible goods are exported from Canada within 60 days of the day the travellers took delivery of them in Canada.

To apply for a refund, each individual receipt for the purchase of eligible goods must be for a minimum before tax amount of CAN\$50 **and** the total claim amount for eligible goods and accommodation must be for a minimum before tax amount of CAN\$200. For more information, see our pamphlet RC4031, *Tax Refund for Visitors to Canada*. The pamphlet includes Form GST176, *Application for Visitor Tax Refund*.

### Note

To claim the refund for tax paid on eligible goods, non-resident visitors may have to provide proof that they have exported their goods from Canada.

If you, as a travel-service provider, prepare travel itineraries for non-resident travellers, build in time to allow them to comply with the proof of export procedures. As well, you might need to make sure that the Canadian customs office is open when your foreign travellers leave Canada. For more information, call the Automated Customs Information Service at **1-800-461-9999**.

### Business travel

Non-resident businesses can claim a refund of taxes paid on the same types of eligible accommodation as can be claimed by individuals. A condition of entitlement is that the non-resident individuals who used the accommodation were in Canada for business purposes and were representatives of the non-resident business. To file an application for refund, the purchase amounts (before taxes) of eligible accommodation must total at least CAN\$200. To apply for the refund, use Form GST510, *Application for Business Travel Tax Refund*. For more information, see our pamphlet RC4117, *Tax Refund for Business Travel to Canada*.

A non-resident incentive travel house or incentive travel company can obtain a refund of tax paid on accommodation if it resells an incentive trip to a non-resident corporation, association, or other business that pays the cost of the incentive trip on behalf of its employees. In some cases, incentive trips may qualify as conventions. For more information, see the section “Tax refund for foreign conventions” on page 22.

### **How to credit the accommodation tax refund to non-resident individuals and businesses**

When we refer to eligible non-resident business claimants, we do not include non-resident travel-service providers who resell accommodation provided in Canada. See the following section if you want to credit the refund to a non-resident travel-service provider.

As a Canadian travel service provider, you can credit the tax refund in respect of eligible accommodation to eligible non-resident individual and business claimants, if all of the following conditions are met:

- The individual who uses the accommodation is a non-resident.
- If a non-resident business is claiming the credit, the individual must be an owner, employee, or a customer of the business, and must be in Canada for business purposes.
- The payment for the short-term accommodation must be made at a place outside Canada where you or your agent is conducting business.
- The minimum (before tax) claim amount is CAN\$200.

When preparing your GST/HST return, report the full amount of GST/HST collected on line 103 of your return. On line 107, report as an adjustment the amount that you are crediting to the non-resident. By doing this, you will decrease the amount of net tax reported on line 109 of your GST/HST return.

#### **Accommodation**

For a refund for accommodation that is not included in a tour package, credit the actual amount of tax paid for each individual per night. Provide a receipt that clearly shows the transaction dates and the amount of tax paid for the accommodation.

#### **Accommodation included in tour packages**

Non-resident individuals and businesses may buy a tour package that includes eligible accommodation. If so, they have to send you an advance deposit of at least 20% of the tour package price at least 14 days before the accommodation is made available to the individuals. The prepayment must be made using something like a credit card, cheque, or a bank draft drawn on a financial institution **outside** Canada. Credit the claimant 50% of the tax paid on the tour package.

When preparing your GST/HST return, report the full amount of GST/HST collected on line 103 of your return. On line 107, report as an adjustment the amount that you

are crediting to the non-resident. By doing this, you will decrease the amount of net tax reported on line 109 of your GST/HST return.

### **Tax refund for non-resident travel-service providers**

Non-resident travel-service providers can claim the tax refund if they meet all of the following conditions:

- They are not registered for GST/HST.
- They will resell the eligible accommodation, eligible camping accommodation or tour package that includes accommodation at a place outside Canada, to non-resident individuals who are entitled to the tax refund.
- The total amount of their eligible purchases (before taxes), must be at least CAN\$200.
- The duration of each non-resident individual’s visit must be less than one month at each lodging establishment.

#### **Note**

To qualify, an eligible tour package cannot include the provision of a convention facility or related convention supplies.

### **How to credit the accommodation tax refund to non-resident travel-service providers**

As a Canadian travel-service provider, you can credit the refund to non-registered, non-resident travel-service providers when you sell them eligible accommodation or eligible tour packages. All the same conditions listed in the above section must be met. As proof that these conditions are met, ask your non-resident clients to certify that they meet all the conditions for the refund. They should give you documentary evidence that they will resell the eligible accommodation or eligible tour package to non-resident individuals. This evidence includes:

- a list of the names and addresses of individuals to whom they will provide the accommodation or tour package; or
- the names of the non-resident individuals and the names and addresses of the travel agents through whom they will make the sales.

You do not have to forward the evidence to us. However, you should keep all documents in case we ask to see them for audit purposes.

#### **Accommodation**

For purchases of eligible accommodation that are not included in a tour package, credit the non-resident travel-service provider the amount of tax payable on the accommodation.

#### **Accommodation included in tour packages**

For purchases of eligible tour packages, credit the non-resident travel-service provider an amount equal to 50% of the tax payable on the tour package.

### Example 1

You sell 15 tour packages at an all-inclusive price of \$1,000 per person to a non-resident tour operator. The package includes the following services:

- hotel accommodation for six nights in Toronto;
- meals and sightseeing; and
- an admission fee to a performance.

You decide to credit the tax refund to the non-resident tour operator. The invoice shows the following information for the 15-person tour:

Selling price	\$ 1,000 × 15	\$15,000
GST	\$15,000 × 6%	<u>900</u>
Subtotal		\$15,900
Minus credit for GST	\$900 × 50%	<u>(450)</u>
Amount payable by non-resident tour operator		<u>\$15,450</u>

Record the full \$900 GST as GST/HST collectible on line 103 of your GST/HST return. Add the \$450 as an adjustment on line 107 of your GST/HST return to decrease the amount of net tax for the reporting period which includes the later of the day on which the tax became payable, and the day the rebate was credited. You have to claim the deduction no later than one year after that day.

Your invoices have to show that you have credited the non-resident person with the tax refund. This ensures that no other claim can be made for the same accommodation or other eligible expense. If we determine that the non-resident person was not entitled to a tax refund, or that the amount credited was more than the non-resident was entitled to, you and the non-resident are jointly liable to pay us any amount owing. Although the refund is equal to 50% of the actual tax paid on the tour package, you have to adjust your tax refund calculation if the nights of accommodation provided in Canada are fewer than the total nights included in the tour package.

### Example 2

A tour package consists of a six-day, five-night package in Canada, with the first and last night of accommodation in a hotel, and three nights on a train. Only the two nights in the hotel qualify as eligible accommodation. The three nights of accommodation on the train do not qualify. Therefore, the refund is 2/5 of 50% of the tax paid on the package.

## Tax refund for foreign conventions

Sponsors and in-house planners of foreign conventions, incentive travel houses, and non-registrant convention organizers may apply for a refund of tax paid on supplies that relate to foreign conventions.

If an incentive trip includes business or corporate meetings, these meetings qualify as conventions. This means that a

non-resident in-house planner can apply for a refund of tax paid on eligible accommodation and related convention expenses.

## What is eligible for the refund?

You can claim a refund in respect of convention facilities and related convention supplies such as:

- short-term accommodation;
- meeting-room rentals and exhibit space;
- advertising matter and convention materials including booklets, programs, stationery, pens, pencils, banners, identification badges, and mugs and jewellery bearing the official registered symbol or logo of an organization;
- souvenirs and promotional materials;
- on-site security services;
- moving services;
- telecommunication services, such as telephone, fax, video, audio, and computer link-ups;
- the rental or lease of business equipment, such as typewriters, computers, photocopiers, desks, and chairs;
- audio, audio-visual, and video services;
- on-site photographic services to record the event's activities;
- professional services such as customs brokerage, legal, accounting, stenographic, and freight forwarders' fees;
- facilitators and course materials to advance the professional development of attending delegates;
- chartered group transportation services used only to transport delegates between any of the conventions facilities, places of lodging, or transportation terminals (e.g., airport shuttle services); and
- 50% of the tax paid on related convention supplies that are food or beverages, or that are supplied under a contract for catering services relating to a foreign convention.

You **cannot** claim a refund on the following:

- theme nights and entertainment;
- local tours and admissions to outside events;
- ground transportation (other than chartered transportation services described above); and
- goods or services provided to the participants of the convention and which are charged for separately from the admission fee.

## How to credit the refund for a foreign convention

As a registered Canadian convention facility, hotel operator, organizer, or incentive house, you can choose to credit the tax refund to:

- a sponsor of a foreign convention, including a qualifying in-house planner; and

- a GST/HST non-registrant foreign convention organizer, including a qualifying incentive house.

The following example shows how to credit the refund for a foreign convention.

**Example**

You invoice the non-resident sponsor of a foreign convention in Sydney, Nova Scotia, for the following services:

- meals and catering;
- meeting rooms and exhibition space; and
- exhibit decorations.

Item	Charge	HST	HST refund
Meals and catering	\$10,000	\$1,400	\$700
Meeting rooms	5,000	700	700
Exhibition space	10,000	1,400	1,400
Exhibit decorations	5,000	700	700
Total	\$30,000	\$4,200	\$3,500

Net amount payable by sponsor:

Invoice total	\$30,000
Total HST	<u>4,200</u>
Subtotal	\$34,200
Less tax refund credited	<u>3,500</u>
Net amount sponsor pays	<u>\$30,700</u>

You, the Canadian travel service-provider, report the \$4,200 HST as GST/HST collected or collectible on line 103 of your GST/HST return for the reporting period in which you invoiced the non-resident sponsor. Add \$3,500 as an adjustment on line 107 of your GST/HST return to decrease the amount of net tax. The time limit to make this adjustment is no later than whichever of the following two dates is later:

- one year after the day the tax became payable; or
- one year from the date the rebate was paid or credited.

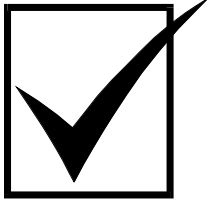
If you operate a hotel or convention facility in Quebec, contact your provincial government for information on how to account for the provincial sales tax on your provincial tax returns.

When you credit a refund to non-resident foreign convention sponsors and unregistered organizers of foreign conventions, you should ask them to certify that the event qualifies for a tax refund.

For more information, see our booklet RC4160, Tax Refund for Non-Resident Travel Organizers and Foreign Organizers. The guide includes Form GST 386, Refund Application for Foreign Conventions.

# ***Your opinion counts!***

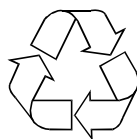
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