



GST/HST Information for Municipalities

Before you start

Is this guide for you?

This guide outlines how the goods and services tax/harmonized sales tax (GST/HST) applies to municipalities. It contains an overview of GST/HST, as well as more detailed information about GST/HST issues that are specific to municipalities.

You should also see our guide RC4022, *General Information for GST/HST Registrants*, which provides basic information to help you collect, record, calculate, and remit GST/HST. It also includes line-by-line instructions to help you complete your GST/HST return.

Internet

Visit our Web site at 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 us at 1-800-959-5525.

Forms and publications

Throughout this guide, we mention other publications and forms. We have provided a list of these in the Appendix. Many of our forms and publications are available on our Web site at www.cra.gc.ca/forms. If you want to obtain copies of a publication or form, call us at 1-800-959-2221.

Teletypewriter (TTY) users

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

Direct deposit

If you are expecting refunds or rebates when you file your GST/HST returns or rebate applications, 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 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. Also, see the Revenu Québec publication *General Information Concerning the QST and the GST/HST*.

What's new

Effective July 1, 2006, under proposed legislation, the GST rate will be reduced from 7% to 6%, and the HST rate from 15% to 14%. This guide contains this proposed change to law which was current at the time of publication.

Recent amendments to the GST/HST legislation have increased the municipal rebate rate from 57.14% to 100% of the GST or the federal part of the HST. Additionally, the tax status of, and liability to collect tax on, certain supplies of capital personal property and most supplies of real property made by a municipality have been affected.

As a result of these recent amendments, a non-registrant municipality or a non-registrant designated municipality may now qualify for a rebate when it makes a taxable sale of:

- capital personal property; or
- designated municipal property that is capital personal property of the person.

For more information about rebates, see our guide RC4033, *General Application for GST/HST Rebates*.

These amendments may also have an impact on a municipality's eligibility to claim input tax credits or public service body rebates, as well as on the basic tax content of certain municipal property. For more information, see our guide RC4034, *GST/HST Public Service Bodies' Rebate*.

Note

The 100% municipal rebate of GST or the federal part of HST applies to goods and services acquired by municipalities for which tax became payable on or after February 1, 2004.

For more information, call our Business Enquiries line at 1-800-959-5525 or Revenu Québec at 1-800-567-4692.

Visually impaired persons can get our publications in braille, large print, or etext (computer diskette), or on audio cassette by visiting our Web site at **www.cra.gc.ca/alternate** or by calling **1-800-959-2221** weekdays from 8:15 a.m. to 5:00 p.m. (Eastern Time).

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 les municipalités*.

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Terms we use in this guide

Basic tax content of a property generally means the amount of GST/HST that you paid on the property, and on any improvements to the property, less any amounts that were reimbursed to you (such as rebates or remissions, but not input tax credits). You also have to consider the fair market value of the property as well as the value at last acquisition (including any improvements).

Capital personal property includes depreciable property that is eligible or would be eligible for capital cost allowance for income tax purposes. It also includes any personal property, except depreciable property, the sale of which would result in a capital gain or loss for income tax purposes. For GST/HST purposes, capital personal property does not include property in Classes 12, 14, or 44 of Schedule II to the *Income Tax Regulations*.

Commercial activity means any business, or adventure or concern in the nature of trade carried on by certain persons, but does not include the making of exempt supplies. A commercial activity does not include any business, or adventure or concern in the nature of trade carried on without a reasonable expectation of profit by an individual, a personal trust, or a partnership where all the members are individuals. It also includes a supply of real property by any person, other than an exempt supply, and anything done in the course of making the supply or in connection with the making of the supply.

Designated municipal property refers to property of a person who is, at any time, designated to be a municipality for purposes of claiming the public service bodies' rebate. Generally, it is property, or an improvement to it, that the person intended, at the time of acquisition to consume, use or supply more than 10% in activities specified in its designation. It also means an amount in respect of the property has been included in the person's calculation of non-creditable tax charged. Once property qualifies as designated municipal property, it is always treated as such. This definition came into force on February 1, 2004.

Designated municipality refers to a person that is designated to be a municipality for purposes of claiming the public service bodies' rebate.

Election is a way for businesses and organizations to choose various options that may make it easier to comply with GST/HST. These options allow you to adapt the administrative requirements of GST/HST to your business activities. Each election has its own eligibility criteria.

Exempt supplies are supplies of goods and services that are not subject to GST/HST. You cannot claim input tax credits for GST/HST paid on expenses related to making these supplies. However, as a municipality, you may be eligible to claim a rebate to recover the tax paid on such expenses.

Government refers to the federal or provincial levels of government.

Input tax credit (ITC) means a credit GST/HST registrants can claim to recover the GST/HST they paid or owe for goods or services they acquired, imported into Canada,

or brought into a participating province for consumption, use, or supply in the course of their commercial activities.

Municipality means an incorporated city, town, village, metropolitan authority, township, district, county or rural municipality, or other incorporated municipal body however designated, and such other local authority as the Minister of National Revenue may determine to be a municipality.

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

Note

The HST rate in the participating provinces is 14% on or after July 1, 2006. Before July 2006, the rate was 15%.

The GST rate in the rest of Canada is 6% on or after July 1, 2006. Before July 2006, the rate was 7%.

Person means an individual, a partnership, a corporation, the estate of a deceased individual, a trust, or any organization such as a society, a union, a club, an association, or a commission.

Public institution means a registered charity for income tax purposes that is also a school authority, a public college, a university, a hospital authority, or a local authority determined to be a municipality.

Public sector body means a government or a public service body.

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

Registrant means a person that is registered or must be registered for GST/HST. Municipalities are usually registrants, although many of their supplies are exempt of the GST/HST.

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

Taxable supplies means goods and services that are supplied in the course of a commercial activity and that 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).

Zero-rated supplies refers to supplies of a limited number of goods and services that are taxable at the rate of 0%. This means that there is no GST/HST charged on the supply of these goods and services, but GST/HST registrants can claim ITCs for the GST/HST they pay or owe on purchases and expenses incurred to provide them.

GST/HST and municipalities

In this guide, we outline the rules and administrative treatments that apply to municipalities to help you comply with the GST/HST legislation. We have included information on how to register for GST/HST and claim input tax credits and rebates, as well as information on goods and services that are exempt from GST/HST when supplied by municipalities and other public service bodies.

If you are a GST/HST registrant, see our guide RC4022, *General Information for GST/HST Registrants*. It has general information on charging, collecting, and remitting GST/HST. Call us if you are not registered and would like more information to decide whether you should register for GST/HST.

What is GST/HST?

GST is a 6% tax (before July 2006, the rate was 7%), that applies on most taxable supplies made in Canada. The 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 base of goods and services as GST, but at the rate of 14% (before July 2006, the rate was 15%). Of this, 6% (7% before July 2006) is the federal part and 8% is the provincial part.

GST/HST registrants who make taxable supplies (other than zero-rated supplies) in the three participating provinces collect tax at the HST rate. They collect tax at the GST rate on taxable supplies (other than zero-rated supplies) they make in the rest of Canada.

Who pays GST/HST?

Almost everyone has to pay GST, or HST, on taxable supplies of goods and services (other than zero-rated supplies) made by a GST/HST registrant.

Generally, the only groups or organizations that do not always pay GST/HST on their purchases are provincial and territorial governments, Indians, and Indian bands. Call us for more information about collecting tax from these groups or organizations.

How GST/HST works

Persons involved in commercial activities in Canada generally have to register for GST/HST unless they are a small supplier (which is explained in the section "Registering for GST/HST" on page 10). Registrants who make taxable supplies of goods and services (other than zero-rated supplies) in the three participating provinces collect tax at the HST rate. They collect tax at the GST rate on taxable supplies of goods and services they make in the rest of Canada (other than zero-rated supplies).

If you are a GST/HST registrant, you can claim an input tax credit (ITC) to recover the GST/HST you pay or owe on your purchases and expenses supplied, used, or consumed in your commercial activities. Commercial activities are activities you undertake to make supplies of goods and services that are taxable at 6% (before July 2006 at 7%), 14% (before July 2006 at 15%), or 0%. For example, if you buy meters for parking spaces, you can claim the GST/HST you paid on the parking meters as an ITC. For more information on ITCs, see page 15.

In addition, you may be eligible for a rebate of the GST/HST you pay on purchases and expenses for which you cannot claim ITCs. For more information on rebates, see page 16.

If you are a GST/HST registrant, you have to prepare and send us a GST/HST return showing the amounts of GST/HST you charged and paid. When you complete your GST/HST return, deduct your ITCs (GST/HST you paid or owe) from the GST/HST you charged on your taxable supplies. This includes the GST/HST you charged on all goods and services during a reporting period, even if you have not collected the tax. The result is your **net tax**. If you also qualify for a rebate, you can deduct your rebate from your net tax. Complete the appropriate rebate application and send it with your GST/HST return.

If the GST/HST you charged on your taxable supplies is more than the amount of the ITCs and rebates you are claiming, send us the difference. If the amount of the ITCs and rebates you are claiming is more than the GST/HST you charged on your taxable supplies, you can claim a refund for the difference.

You have to file your GST/HST returns at regular intervals. When you register, we give you reporting periods to follow. Reporting periods are based on your total annual taxable supplies made in Canada, including those of your associates. For example, if your annual taxable supplies are \$500,000 or less, we will automatically give you an annual reporting period. This means that you file only one GST/HST return per year.

Note

If you are an annual filer and your net tax for a year is \$1,500 or more, you may have to make quarterly instalment payments even if your rebate reduces your amount owing to less than \$1,500.

You may qualify to change your assigned reporting period. For example, if you have an annual reporting period but want to file more frequently, you may be able to elect to file your GST/HST returns on a monthly or quarterly basis. Call us to find out if you are eligible to change your reporting period. We will send you Form GST20, *Election for GST/HST Reporting Period*, or, in most cases, we can change your reporting period over the telephone.

If you are not a GST/HST registrant, you do not charge GST/HST on most of your supplies of goods and services and you do not claim ITCs for the GST/HST you paid or owe on your purchases. However, you may be able to claim a rebate of the GST/HST you paid on some or all of your purchases.

Note

Due to recent amendments to the GST/HST legislation, most supplies of personal property, real property and capital personal property made by a municipality are now taxable and tax has to be collected if the municipality is a registrant. Supplies of designated municipal property (either personal, real or capital personal property) by a registrant designated municipality will be taxable unless an exempting provision applies. Further changes make a non-registrant municipality that is a small supplier liable to collect the tax on a taxable **sale** of capital personal property. See the section "Capital property" on page 20 for more information.

Also as a result of the recent amendments, a non-registrant small supplier that is a designated

municipality is liable to collect tax on a taxable sale of designated municipal property that is capital property of the person. Generally, tax must be collected on taxable sales of real property by a non-registrant small supplier.

Who qualifies as a municipality?

There are broad guidelines for qualifying as a municipality for GST/HST purposes.

A municipality means an incorporated city, town, village, metropolitan authority, township, district, county, or rural municipality, or other incorporated municipal body, however designated. Examples of other incorporated municipal bodies include incorporated communities in Newfoundland and Labrador, incorporated northern hamlets, and incorporated northern settlements in Saskatchewan.

In addition, there are two ways in which we may grant either total or partial municipal recognition or status to an organization or other person:

- We may **determine** an organization to be a municipality. This means that all GST/HST provisions that relate to municipalities will apply to the organization as a whole—that is, to all the organization’s purchases and supplies.
- We may **designate** an organization to be a municipality for certain municipal services that it provides. When we designate an organization to be a municipality, the designation only applies to those municipal services for which it has been designated. This restriction recognizes that the designated activities represent the only capacity in which the organization is like a municipality.

You have to send us a written request for municipal determination or designation for GST/HST purposes. Mail your request, with supporting documents, to:

Director
Public Service Bodies and Governments Division
Excise and GST/HST Rulings Directorate
15th floor, Tower A
Place de Ville
320 Queen Street
Ottawa ON K1A 0L5

If you are in the province of Quebec, you should send your request for municipal determination or designation to Revenu Québec at:

Directeur des Taxes à la consommation
Direction générale de la législation
3800, rue de Marly
Sainte-Foy QC G1X 4A5

Organizations that we may determine to be municipalities

The term municipality includes local authorities that we may determine to be municipalities for all GST/HST purposes, such as those in the following groups:

- Para-municipal organizations;

- Special-purpose provincially or territorially established authorities;
- unincorporated municipal government units;
- volunteer fire organizations; and
- Aboriginal bodies, including Indian bands.

Para-municipal organizations

Municipalities often create autonomous boards, commissions, and other organizations to carry out certain activities. To qualify for determination as a municipality, such an organization has to meet the following two conditions:

- it is established by one or more municipalities, or by a province at the request of one or more municipalities; and
- it is owned or controlled by one or more municipalities.

We will consider an organization to be **owned** if:

- one or more municipalities own 90% or more of the organization’s shares or capital; or
- one or more municipalities hold title to the organization’s assets or control their disposition so that in the event of a winding-up or liquidation, these assets are vested in the municipality or municipalities.

We will consider an organization to be **controlled** if:

- the municipality or municipalities must approve the organization’s operating budget and, where it applies, capital budget; and
- the municipality or municipalities appoint the majority of the members of the organization’s governing body, such as the directors, governors, or commissioners.

Organizations that meet the above conditions are considered to be para-municipal organizations for GST/HST purposes. Examples of organizations that may fall into this category if they meet the conditions include:

- community centre boards;
- health boards;
- local improvement boards;
- planning commissions;
- police service boards;
- public libraries; and
- tourism boards.

When requesting municipal determination, the organization should provide documentation showing that a province or municipality created the organization. This could include the resolution of the city council or other managing body of the municipality, indicating its intentions.

The organization should provide documentation showing that either the control or the ownership requirements have been met. Documentation may include copies of municipal by-laws, the corporate charter, subordinate legislation empowering the organization, or financial statements.

Special-purpose provincially or territorially established authorities

These are organizations created by a province or a territory that act like municipalities by providing specific municipal services.

A provincially or territorially established body may be determined to be a municipality if it meets all of the following conditions:

- A province or territory gives it power to perform one or more municipal functions within a specified geographic area. These functions may include, but are not limited to:
 - conservation;
 - erosion control;
 - fire or police protection;
 - irrigation or water improvement;
 - library services;
 - local planning, improvement, or development;
 - parks management;
 - pollution control; and
 - water or sewerage distribution, administration, or other control function.
- The organization must be a body, entity, or organization, and not an individual.
- The organization must have local jurisdiction, rather than provincial or national jurisdiction. That is, it performs functions within a localized area, rather than within the province or country.

When requesting municipal determination, the organization should provide a copy of relevant provincial legislation or regulations that grants them their authority, and some official indication of this authority as provided by the provincial authority responsible for municipal affairs, local by-laws, or resolutions.

Unincorporated municipal government units

These include towns, villages, and hamlets that are similar to municipalities, but are unincorporated. We will determine these organizations to be municipalities if they are empowered under provincial or territorial legislation to exercise general powers of local self-government.

When requesting municipal determination, the organization should provide a copy of the relevant provincial legislation or regulations controlling their activities, as well as copies of supporting documents, including local by-laws, resolutions, or written notification from the provincial authority responsible for municipal affairs.

Volunteer fire organizations

Volunteer fire organizations, such as volunteer fire co-ops, are created by groups of individuals to provide fire protection services in a municipality or any other geographic area within a province or territory. We may determine these organizations to be municipalities if they

provide evidence that they are providing fire protection service in a particular geographic area. This evidence may include provincial legislation, municipal by-laws, incorporating documents, an agreement or contract between the organization and a municipality or government for the provision of fire protection services, or any other satisfactory documentary evidence.

Aboriginal bodies, including Indian bands

An Aboriginal body may qualify for determination as a municipality if it provides municipal services within a local jurisdiction. When requesting municipal determination, the body must provide documentation to demonstrate that it is providing municipal services to residents of the land for which it has local jurisdiction. The Aboriginal body should also include documentary evidence showing how it was established. Generally, municipal services include fire and police protection, water distribution, sewerage or drainage systems, administration or other control functions, local planning, improvement or development, and library services.

An Aboriginal body may also qualify for designation as a municipality for certain municipal services that it provides. For details, see the next section.

Organizations that we may designate to be municipalities

Municipal designation only applies to an organization's activities that involve the delivery of municipal services. These activities are referred to as designated activities.

We may designate an organization or other person to be a municipality for any of the following purposes:

- to qualify for the 100% municipal rebate on purchases made to provide exempt municipal services (see Example 1 below);
- to exempt a supply of a service of installing, repairing, or maintaining a water distribution, sewerage, or drainage system, if the organization operates the system (see Example 2, on the next page); or
- to exempt a supply of unbottled water if the organization is a provincial or federal government. Unbottled water is exempt without the need for designation, **except** for supplies made by federal or provincial governments (see Example 3 on the next page).

Example 1

A non-profit housing organization provides exempt long-term residential accommodation on a rent-geared-to-income basis for which it receives ongoing government funding. We consider the supply of long-term residential accommodation for purposes of municipal designation to mean the rental of self-contained housing units (private living quarters which include cooking facilities and a bathroom) for periods of one month or more. The government funding must be payable to subsidize the cost of those housing units that are supplied on a rent-geared-to-income basis. These activities must be undertaken within a program to provide housing to low to moderate-income households. Please note that a supply

that includes accommodation as one element but also includes other elements such as meals, personal care services, laundry, or housecleaning may not be considered an eligible supply for purposes of municipal designation.

The organization cannot claim ITCs to recover any part of the GST/HST it paid on purchases related to this exempt activity. Since we consider such housing to be a municipal service, we may designate the organization to be a municipality for these housing activities. This would mean that the organization could claim a municipal rebate for its purchases related to performing those housing activities for which it received municipal designation. Where construction of such housing is also an activity for which the organization received municipal designation, see the section “Self-supply rules for builders who are a municipality” on page 20.

If you qualify for any other public service body rebate other than for municipal activities, see the section “Apportionment of rebates” on page 17.

Example 2

An organization operating a sewerage system provides a service of installing, repairing, and maintaining a sewerage system. The organization may ask for municipal designation to exempt this activity from GST/HST. Only the designated activity will be exempt from GST/HST. The organization may also qualify for municipal designation in order to claim the municipal rebate for the GST/HST it paid on purchases related to the designated activity.

Example 3

A provincial government supplies unbottled water to homeowners. This supply by the provincial government is normally taxable. However, we may designate the province as a municipality to exempt the supply.

In some cases, the Minister may designate a **service** rather than an organization.

Example

An organization supplies public passenger transportation services to the general public similar to municipal transit services. The organization is not under contract with the municipality to provide the services. The public passenger transportation services may be designated as municipal transit services to make the supplies exempt. The organization may then qualify to be designated as a municipality to claim the municipal rebate.

When an organization or other person requests a municipal designation, it should provide the following documents:

- for a company, a copy of its incorporating documents;
- for persons such as individuals or partnerships, any document showing proprietorship or an agreement of a partnership;
- a description of the activity or supply of the organization or person, and a description of the municipality and surrounding areas where the organization or person engages in the activity or provides the supply;

- if it applies, a copy of the by-law authorizing the municipality to enter into an agreement with the organization or person to engage in the activity or provide the supply, as well as a copy of this agreement; and
- proof that the organization or person is engaged in the activity or provides the supply, such as copies of paid invoices.

How to cancel your municipal designation or determination

You can cancel your municipal designation or determination by sending us a written request. Mail your request for cancellation to the following address:

Director
Public Service Bodies and Governments Division
Excise and GST/HST Rulings Directorate
15th floor, Tower A
Place de Ville
320 Queen Street
Ottawa ON K1A 0L5

If you are in the province of Quebec, you should send your request for cancellation of municipal designation or determination to Revenu Québec at:

Directeur des Taxes à la consommation
Direction générale de la législation
3800, rue de Marly
Sainte-Foy QC G1X 4A5

Taxable and exempt goods and services

The following are examples of supplies of goods and services a municipality may make that may be taxable, at either 6% (before July 2006 at 7%), 14% (before July 2006 at 15%), or 0%, or exempt.

Goods and services taxable at 6% or 14%

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

- most supplies of real property (see the section “Real property” on page 20);
- most supplies of personal property and capital personal property by a municipality (see the section “Supplies of capital personal property” on page 20);
- banquet facility rentals;
- all public parking rentals (such as municipal parking lots and parking meters) provided in the course of a business;
- telecommunication services, hydro-electricity, and natural gas;
- certain municipal services provided on an optional, fee-for-service basis, such as driveway paving;

- licences to remove forestry products or fishery products;
- municipal golf course green fees;
- licences to use real property;
- supplies by a designated municipality of designated municipal property that is either personal property or capital personal property of the person;
- most supplies of property or a service made by a public institution that is a municipality;
- most supplies of designated municipal property by a public institution that is a designated municipality; and
- supplies of designated municipal property by a charity that is a designated municipality.

Example

GST/HST applies to public parking spaces that municipalities provide in the course of a business, including parking meter fees. Generally, the fee includes GST/HST and the tax is considered paid when the money is deposited.

Zero-rated goods and services

Examples of supplies of goods and services taxable at 0% include:

- prescription drugs and drug-dispensing fees;
- medical devices, such as wheelchairs, eyeglasses, canes, and artificial teeth;
- basic groceries, such as fruit, vegetables, meat, and flour;
- most agricultural and fishery products; and
- goods and services exported from Canada.

Exempt goods and services

Examples of supplies of goods and services exempt of tax when supplied by a municipality include:

- fire protection;
- most police enforcement activities;
- garbage collection, including the collection and delivery of recyclable materials;
- most sewerage and drainage construction, repair, and maintenance;
- most licences and permits;
- inspection fees, if the inspection relates to an application for an exempt licence, permit, quota or similar right; and
- municipal transit.

For more information on supplies of exempt goods and services, see “Exemptions for municipalities” on page 11.

Registering for GST/HST

As a municipality, you have to register for GST/HST if you make taxable supplies of goods and services in Canada and your total worldwide revenues from taxable supplies (including those of your associates) in the last four consecutive calendar quarters and in any single calendar quarter are more than \$50,000.

If your worldwide revenues from taxable supplies of goods and services are \$50,000 or less over the last four consecutive calendar quarters **and** in any single calendar quarter, we consider you to be a **small supplier** and you do not have to register for GST/HST.

If, during any one calendar quarter, your total worldwide revenues from taxable supplies of goods and services, including those of your associates, are more than \$50,000, you will immediately stop being a small supplier. You will have to start collecting GST/HST on your taxable supplies made in Canada from the date of, and including, the supply that put you over the \$50,000 threshold, even if you are not yet registered.

If you do not exceed the threshold amount in one calendar quarter, but you do over four consecutive calendar quarters, you are considered to be a small supplier for those four calendar quarters and a month following those quarters. You will have to start collecting GST/HST on your taxable supplies made in Canada following that month.

Note

Charities that have been determined to be municipalities can calculate their small supplier threshold with either a \$250,000 gross revenue test or a \$50,000 annual taxable supplies test. Both of these tests are discussed in our guide RC4082, *GST/HST Information for Charities*.

If you are a non-registrant small supplier, you do not charge GST/HST when you supply taxable goods or services (other than taxable sales of real property and capital personal property, and taxable sales by a designated municipality of designated municipal property that is capital property of the person). You cannot claim ITCs to recover the GST/HST you pay or owe on your purchases and expenses. However, as a municipality, you may be eligible for a rebate of GST/HST. Although you do not have to register for GST/HST if you are a small supplier, you may be eligible to do so voluntarily.

If you are a GST/HST registrant, you have to collect GST/HST on your taxable supplies of goods and services, **and** you can claim ITCs for the GST/HST you pay or owe on expenses incurred to provide these taxable goods and services.

Bodies created by a municipality

Many municipalities create autonomous boards, commissions, or other bodies, such as public libraries, planning commissions, and fire and police departments, to perform certain municipal activities.

Municipal boards, commissions, and departments that are legally part of a municipality cannot register separately for GST/HST. However, public service bodies that are boards, commissions, and other bodies whose legal status is separate from the municipality have to register separately if their worldwide taxable supplies of goods and services (including those of their associates) are more than \$50,000 over four consecutive calendar quarters and in any single calendar quarter.

Incorporated municipalities

If you are incorporated, you register for GST/HST as a single entity. Your individual branches or divisions cannot register separately. We consider the total worldwide taxable revenues of your corporation (including branches and divisions, as well as those of your associates) to determine whether or not you have to register.

However, if your municipality has branches or divisions, you can apply for each branch or division with \$50,000 or less in taxable supplies in its last four calendar quarters and in any single calendar quarter to be designated as a small supplier division.

A small supplier division does not have to collect GST/HST on its taxable supplies (other than on taxable sales of capital personal property and real property) and cannot claim ITCs for GST/HST paid or owed on its purchases. Generally, the GST/HST paid on purchases made by a small supplier division would be included in the amounts you claim when calculating your rebate. Once a branch no longer qualifies as a small supplier division, it must collect GST/HST on all of its taxable supplies (other than zero-rated) and can claim ITCs.

A branch or division qualifies as a small supplier division if:

- you can separately identify the branch or division by either its location or the nature of its activities;
- separate records, accounting books, and systems are kept for that branch or division;
- the branch or division made \$50,000 or less in taxable supplies in its last four calendar quarters and in any single calendar quarter; and
- you have not revoked an earlier small supplier designation of the branch or division within the previous 365-day period.

If you would like to apply to have your branches or divisions designated as small supplier divisions, complete Form GST31, *Application by a Public Service Body to Have Branches or Divisions Designated as Eligible Small Supplier Divisions*, and return it to us.

Unincorporated municipalities

If your municipality has several branches or divisions, we may consider the branches or divisions to be separate entities for GST/HST purposes. Depending on the amount of their taxable supplies, individual branches or divisions may have to register separately.

We consider a branch or division within an unincorporated municipality to be a separate entity if it has a significant

degree of control over its own affairs. To determine if a branch or division is a separate entity and should register separately for GST/HST, consider the following criteria.

Legal status – Does the particular branch or division have a constitution and by-laws different from those of the municipality? Does the branch's constitution define the activities the branch will carry out? Can it sue and be sued, hold property, or contract in its own name? Is it liable for its own debts? Does it raise its own revenues or does the municipality fund it?

Management structure – Do the municipality and its branches have different managers? Can the branch make financial and operational decisions without the approval of the municipality? Does it have separate accounting systems and a different fiscal year-end from the municipality?

Note

If a branch of an unincorporated municipality registers as a separate entity, GST/HST applies to taxable supplies transferred between that branch and the municipality.

Exemptions for municipalities

Municipalities make several supplies of goods and services that are exempt from GST/HST. Some exemptions are common to all public service and public sector bodies (that is, a government or a public service body). A few of these exemptions are described below, beginning with those unique to municipalities.

Inter- and intra-municipal supplies

Supplies made between certain levels of municipal government, between municipalities and their related organizations, or between provincially established organizations and certain organizations that we have determined to be municipalities (we explain municipal determination on page 7) are exempt from GST/HST.

This exemption recognizes that many municipalities establish semi-autonomous bodies, such as boards or commissions, to deliver certain municipal programs. These organizations are generally called para-municipal organizations (see page 7 for details). Also, it is possible to have a regional, metropolitan, or county municipality provide goods and services for several municipalities within the region or county.

Since each of these bodies is a separate entity, GST/HST would usually apply to supplies between them and the municipality. However, in municipalities that use internal departments or divisions to deliver similar programs, instead of establishing separate legal entities, GST/HST would not apply on internal transfers because we do not consider supplies to be made. To avoid this inequity, supplies of goods and services between the following types of municipalities are exempt:

- A municipality and any of its para-municipal organizations. For example, accounting services that a municipality provides for its library board, which has been determined to be a municipality, are exempt.

- Para-municipal organizations of the same municipality. For example, supplies of literature from a municipal library board to a police commission are exempt if both are para-municipal organizations of the municipality.
- A regional municipality and any of its local municipalities or any para-municipal organizations of any of those local municipalities. For example, the supply of legal services from the regional municipality to the local municipality is exempt.
- A para-municipal organization of a regional municipality and any local municipality of the regional municipality, or any para-municipal organization of the local municipality. For example, the supply of a regional library board's administrative services to a local municipality's library board is exempt.
- A regional municipality or any of its para-municipal organizations and other organizations designated for the provision of municipal services within an area over which the regional municipality has jurisdiction. For example, the supply of engineering services from the regional municipality to an organization operating a water distribution system for which it has been designated is exempt.

However, GST/HST applies to the following supplies of goods and services:

- a supply of electricity, gas, steam, or telecommunication services made by a municipality or any of its para-municipal organizations acting as a public utility;
- supplies between neighbouring municipalities, even if they are under the jurisdiction of the same regional municipality;
- supplies between para-municipal organizations of neighbouring municipalities, even if they are under the jurisdiction of the same regional municipality; and
- supplies between a para-municipal organization of one municipality and a neighbouring municipality.

Library services

GST/HST does not apply to a right to borrowing privileges (library cards) or to fines related to borrowing activities at a public library.

Administrative services

GST/HST does not apply to certain administrative services provided by a municipality, or a board, commission, or other body established by a municipality. These services include:

- registering any property or filing any document in a property registration system;
- filing or obtaining a document in court;
- filing a document required by a law; or
- providing a licence, permit, quota, or similar right, except for importing alcoholic beverages.

Application fees for exempt licences, permits, quotas, or similar rights, other than a right to import alcoholic beverages, are exempt from tax. Fees that a government regulatory body collects from holders of such licences for costs of administering a regulatory program are also exempt from tax.

Information services

GST/HST does not apply to information services provided by a municipality, or by a board, commission, or other body established by a municipality, if the services are related to the following:

- any document or certificate that provides evidence of vital statistics, residency, citizenship, the right to vote, or the registration for any government service, or any other status of any person;
- providing information or certification or other documents regarding the title to, any right or estate in, or any encumbrance for real property. This exemption also applies to any assessment of real property or the zoning of real property; or
- providing information under the *Privacy Act*, the *Access to Information Act*, or any similar provincial legislation. This exemption includes information provided by provinces and municipalities under access to information legislation.

Law enforcement and fire protection services

A law enforcement service or a fire protection service made to a government or a municipality, or to a board, commission, or other body established by a government or municipality, is exempt when provided by a municipality or by a board, commission or other body established by a municipality. For, example, emergency response services (such as 911 dispatch services) for fire protection and police, are exempt when supplied by a municipality to its neighbouring municipalities.

Property and residential services

GST/HST does not apply to municipal services, such as street lighting, that a municipality provides on a non-optional basis to owners or occupants of real property in the municipality.

The exemption, for services made by or for a municipality to property owners or occupants in the area who have no option but to receive the services, applies only when the person paying for the service is the property owner or occupant. As a result, property owners or occupants will not pay tax on basic municipal services.

Non-optional municipal services that a third party provides for a municipality are taxable if the third party bills the municipality, but exempt if the third party bills the property owner or occupant.

Example

A municipality hires a private business to provide snow removal services for the municipality. This service is taxable because it is being provided to the municipality rather than directly to property owners. However, the municipality can claim a municipal rebate for the GST/HST it pays on the service.

Services that a municipality provides to owners or occupants of real property are exempt if they are provided as a result of a by-law infraction. These services are considered to be non-optional and are exempt if they are required because of the owner's or occupant's failure to comply with a legal obligation.

Example

A municipal by-law requires homeowners to cut the grass on municipal easements abutting their property. If a homeowner fails to comply, the municipality will cut the grass and charge the homeowner for the service. The service is exempt.

False alarm fees

False alarm fees that municipal police charge to an alarm company or to individual subscribers are fees for non-optional services supplied by a municipality and are exempt.

Municipal sewer and water systems

Most repair, maintenance, and installation work for public water distribution systems, sewers, and drainage systems is exempt as long as the supply is made by a municipality or by an organization designated as a municipality for this purpose.

A separate fee charged to a property owner to repair or maintain part of an existing sewer or water line, which is for the sole use of the property owner, is exempt.

Unbottled water

The supply of unbottled water by a person other than a government, or by a government designated to be a municipality for purposes of supplying the water, is exempt. The service of delivering the water is exempt when made by the supplier of the water, and when the supply of the water is exempt.

This means that municipalities, private water haulers, water-cooperatives, and others who supply unbottled water do not charge GST/HST on supplies of water. However, they cannot claim ITCs for the GST/HST they pay on purchases they use to make sales of water.

As such, municipalities can apply for a 100% municipal rebate to recover the GST or the federal part of the HST they pay on purchases they use to supply unbottled water. Other suppliers making exempt supplies of unbottled water can request municipal designation so that they can apply for the rebate. For details on municipal designation, see page 7.

Governments (at the federal or provincial level) have to be designated as a municipality to have their supplies of unbottled water exempt and to be eligible for the municipal rebate.

This exemption does not apply to zero-rated supplies (such as water sold to consumers in containers that are larger than a single serving) or water served in single servings to consumers through a vending machine or at the supplier's permanent establishment, which is taxable at 6% (before July 2006 at 7%) or 14% (before July 2006, at 15%).

Garbage collection, including the collection and delivery of recyclable materials

Garbage collection services, including collection of recyclable materials and special collections, are exempt when provided by a municipality or a board, commission, or other body established by a municipality. The collection of recyclable material includes such services as the blue box program, where recyclable material is picked up from residences, or the service of collecting recyclable material from a central recycling depot.

Example

A municipality gives 52 tags to the homeowner, to be attached to one bag or container of garbage per week. The municipality collects only those bags or containers where tags have been attached. Homeowners may purchase additional tags for \$1.50 each if they have more than one bag or container of garbage to be collected. The garbage collection, and the supply of the additional tags, is exempt.

Note

Although the collection and delivery of recyclable material to a recycling centre is an exempt supply, the processing and marketing of the recyclable material for later sale is a commercial activity. Consequently, the sale of recyclable material is taxable.

Municipal transportation services

Municipal transit services that are provided directly to the public are exempt. This exemption also applies to public passenger transportation services that have been designated as a municipal transit service.

Taxable transit services include:

- charter services provided by a municipal transit authority;
- city tour services provided by a transit authority if, in addition to the transportation services, passengers get a commentary by a tour guide; and
- any transit services supplied by a private company and charged to a municipality.

Leases and rentals of motor vehicles follow the general place-of-supply rules that apply to most goods, but with special adjustments related to lease intervals, international fuel tax agreements, and interprovincial arrangements. Call us if you need more information.

Ferry, road, and bridge tolls

Domestic ferry services that transport passengers or goods are exempt if the principal purpose of the ferrying is to transport motor vehicles and passengers between parts of a road or highway system separated by water. If there is a toll charge on the right to use a road or bridge, the toll is also exempt.

Volunteer exemption

Sales of goods, other than alcoholic beverages and tobacco products, are exempt when provided by a public sector body (other than a charity) if all of the following conditions are met:

- you are not in the business of supplying such goods;
- all the salespeople are volunteers;
- the price of each item is not more than \$5; and
- the sales are not made at an event where people who are in the business of selling such goods are also selling the goods.

Note

If you are a charity and require information on volunteer exemptions, call our Business Enquiries line at 1-800-959-5525.

Admissions to gambling events

If you are a public sector body (other than a charity) and you operate bingo games, casino nights, or similar gambling events and charge a separate admission fee to these events, the fee is exempt if the following two conditions are met:

- volunteers perform 90% or more of the administrative and other functions required to operate the event and take the bets; and
- for bingos and casinos, the event is not held in a place that is used primarily (more than 50%) for gambling activities.

If the event does not meet the above conditions, GST/HST applies to the admission fee unless the maximum admission fee is \$1 or less.

Admissions to events held in a commercial bingo hall or any temporary structure that is used primarily for gambling activities, such as a bingo tent put up on a fair ground, are taxable unless the maximum admission fee is \$1 or less.

Note

Charities who provide admissions to gambling events should see our guide RC4082, *GST/HST Information for Charities* for more information.

Admission to a place of amusement

If the maximum admission charge to a performance, event, or place of amusement is not more than \$1, the admission is exempt. However, if the maximum admission charged is more than \$1, for example, you charge adults a \$5 admission and children a \$0.50 admission, both admissions (the adults' and the children's) are taxable.

Amateur performances and events

Ticket sales to any athletic or competitive event or performance are exempt as long as all or substantially all (90% or more) of the athletes, competitors, or performers are not remunerated, either directly or indirectly, for their participation. We do not consider government and municipal grants, reasonable gifts, prizes, and compensation for travel or other incidental expenses to be remuneration in this situation. In addition, the performance or event cannot be advertised as featuring paid, professional participants.

This exemption does not apply to events, such as professional and amateur (pro-am) golf tournaments, where professional competitors compete for cash prizes.

Recreational programs

Fees for recreational programs (or for memberships in such programs) are exempt when provided by a public sector body (other than a charity) if the program consists of a series of supervised instructional classes or activities involving athletics, outdoor recreation, music, dance, crafts, or other recreational pursuits designed primarily for children 14 years old and under. However, if there is overnight supervision throughout a substantial part of the program, the fee is taxable.

Example

You run a supervised after school program for children at a local elementary school, providing crafts and athletic activities. As the program is primarily for children 14 years old and under, the fee is exempt.

Recreational programs provided primarily for underprivileged individuals, or people with disabilities, are exempt. These programs may include board and lodging at recreational camps or similar places, as well as recreational services, including those provided on an on-going basis at a community centre.

Note

If you are a charity and provide recreational programs, please see our guide RC4082, *GST/HST Information for Charities*.

Relief of poverty, suffering, or distress

Food, beverages, or short-term accommodation provided to relieve the poverty, suffering or distress of individuals are exempt when provided by a public sector body (other than a charity). Therefore, GST/HST does not apply to charges for meals or accommodation at a shelter for needy individuals.

Prepared meals provided in an individual's home through programs for seniors, underprivileged individuals, or individuals with a disability who have difficulty preparing adequate meals for themselves are exempt. As well, sales of food and beverages to a meals-on-wheels organization are exempt.

Note

Charities providing relief of poverty, suffering, or distress should see our guide RC4082, *GST/HST Information for Charities* for more information.

Homemaker services

Homemaker services may include cleaning and other household services, meal preparation, childcare, and personal care services when provided to an individual who requires assistance due to age, infirmity or disability.

These homemaker services are exempt when provided by a government or municipality. They are also exempt when a government, municipality or organization administering a government or municipal program for homemaker services pays another person to make or to acquire these services. In the latter case, both the organization's fees to the government or municipality and its fees to the individuals are exempt.

If the individual receives homemaker services as described above, any other homemaker services that the individual receives are also exempt.

Note

The homemaker service must be provided in the individual's place of residence in order for the service to be exempt.

Public institutions

An organization, such as a conservation authority, that we have determined to be a municipality, and that is also a registered charity under the *Income Tax Act*, meets the definition of public institution, for which there are specific exemptions.

Admissions to a ball, concert, or similar fundraising event are exempt if they are sold by a public institution and a part of the admission price can be treated as a charitable donation for income tax purposes.

Example

You sell tickets to a fund-raising dinner for \$75 but \$50 of the ticket price qualifies as a charitable donation for income tax purposes. You do not charge GST/HST on any part of the admission.

Supplies of goods or services made in the course of a fundraising activity are exempt if the supplies are not made on a regular or continuous basis throughout the year or a significant part of the year, and if the supplies do not entitle the recipients to receive goods or services throughout the year or a significant part of the year.

Other exemptions

The following services made by a municipality or by a board, commission, or other body established by a municipality, are exempt:

- installing, replacing, repairing, and removing street or road signs, barriers, street or traffic lights, or property similar to any of the foregoing;

- removing snow, ice, or water;
- removing, cutting, pruning, treating, or planting vegetation;
- repairing or maintaining roads, streets, sidewalks, or similar or adjacent property; or
- installing accesses or egresses.

Input tax credits

You can claim input tax credits (ITCs) if you are registered, or are required to be registered, for GST/HST. **If you are not a registrant, this section does not apply to you.**

You can recover the GST/HST you pay or owe on purchases you make and expenses you incur to make taxable supplies of goods and services. To do this, you claim ITCs on your GST/HST return. You cannot claim an ITC for purchases of certain capital property (for more information, see the section "Capital property" on page 20).

Note

Under recent amendments to the GST/HST legislation, if a registrant municipality makes a taxable sale of capital personal property or a designated municipality makes a taxable sale of designated municipal property that is capital property of the person, the municipality can claim an ITC for the part of the GST/HST that is not otherwise recoverable. As special rules apply, call our Business Enquiries line at 1-800-959-5525 if you need more information.

You can use the general rules to calculate your ITCs or the Simplified Method for claiming ITCs. They are both explained in our guide RC4022, *General Information for GST/HST Registrants*.

General operating expenses are purchases you make for the overall operation of your municipality. These expenses include management, administration, and other support functions of your municipality, as well as office supplies such as paper, computer disks, pens, utilities, and equipment and office rentals.

If you intend to use 90% or more of an operating expense in your commercial activities, you can claim a full ITC for the GST/HST you pay or owe on that expense.

If you intend to use 90% or more of an operating expense in an exempt activity, you cannot claim an ITC for the GST/HST you pay on that expense. For example, if you hire a painting company to paint an apartment building you use to supply long-term residential accommodation (an exempt activity), you cannot claim an ITC for the GST/HST you pay to the painting company.

If you make both taxable and exempt supplies and you cannot attribute 90% or more of an operating expense to either a taxable activity or an exempt one, you can only claim ITCs for the part of the expense you use in your commercial activities. For mixed-use expenses, you have to determine their percentage of use in your commercial activities.

The method you use to determine the percentage of operating expenses you use in commercial activities has to be fair and reasonable, and be used consistently throughout the year.

Examples of expenses eligible for ITCs include:

- general operating expenses, such as rent and utilities, to the extent that they are used in making taxable supplies;
- purchases related to taxable cafeteria sales;
- new merchandise bought for resale;
- meals and entertainment expenses related to your commercial activities;
- certain allowances and reimbursements you paid to employees and volunteers engaged in your commercial activities;
- capital personal property (such as office furniture, photocopiers, computers, and vehicles) used primarily (more than 50%) in your commercial activities; and
- purchases of, and improvements to, capital real property used primarily in commercial activities.

You cannot claim ITCs for any GST/HST you paid or owe on purchases used to make exempt supplies. For example, if you operate an exempt recreational camp for people with disabilities, you cannot claim ITCs for the GST/HST you paid or owe on supplies purchased for the camp, such as furniture or craft supplies. However, you may be eligible to claim a 100% municipal rebate. See this page for information on this rebate.

Example

Your municipality operates an arena that provides both taxable ice time and exempt supervised skating classes for children under the age of 14. Over the quarterly reporting period, 70% of your arena revenue has been for exempt supplies and 30% has been for taxable supplies. You can claim 30% of the GST/HST charged on that quarter's hydro bill as an ITC. You may also be able to claim a municipal rebate for the remaining amount.

Most registrants claim their ITCs when they file their GST/HST return for the reporting period in which they made their purchases. However, if your annual taxable revenue in each of the previous two fiscal years was less than or equal to \$6 million, you have up to four years from the due date of the return for the reporting period in which the ITC could have first been claimed to claim the ITC.

Example

You are a quarterly filer and your annual revenues are less than \$6 million. You pay or owe GST on goods for resale in the reporting period of October 1, 2004, to December 31, 2004, for which you can claim an ITC. Since the end of the reporting period is December 31, 2004, and the due date of the return for that period is January 31, 2005, you can claim the ITC in any future return filed on or before January 31, 2009.

If your annual taxable revenue was more than \$6 million in the current year that includes your reporting period, and the previous year, the time limit for claiming ITCs is generally reduced to two years. This means you have to claim your ITC for a particular purchase on a return filed on or before the due date for the return of the reporting period that ends within two years after the end of the fiscal year that includes the reporting period for which you could have first claimed the ITC.

Simplified Method for claiming input tax credits

If you are a GST/HST registrant, you can use the Simplified Method for claiming your ITCs on your GST/HST return.

You do not have to file an election with us to use this method, but you have to meet certain conditions. You can use the Simplified Method if your annual worldwide taxable supplies are \$500,000 or less in your last fiscal year, and your total worldwide taxable supplies for all past fiscal quarters of the current fiscal year are \$500,000 or less. These totals include the annual taxable supplies of your associates, but do not include supplies of zero-rated financial services, goodwill, or sales of capital real property. In addition, your taxable purchases made in Canada must have been \$2 million or less in your last fiscal year, and it must be reasonable to expect that your taxable purchases in the current fiscal year will not be more than \$2 million. The purchase limit does not include zero-rated purchases, but does include purchases imported into Canada or brought into a participating province.

The Simplified Method for claiming ITCs generally allows you to calculate your ITCs using the total amount payable on an invoice where the goods and services are used to provide taxable supplies. This relieves you of the need to separately identify the amount of GST/HST paid on each invoice. Your ITC claimed would be $6/106$ or $14/114$ (before July 2006, the fraction was $7/107$ or $15/115$) of the total of all invoices where the goods and services are used for taxable supplies.

For more information on the Simplified Method, see our guide RC4022, *General Information for GST/HST Registrants*.

GST/HST public service bodies' rebate

Public service bodies, such as municipalities, universities, schools, and hospitals, can claim a rebate to recover the GST/HST they pay. This rebate allows you, as a municipality, to recover 100% of the GST (or of the federal part of the HST) that you have paid or owe on your purchases and expenses, **but that you cannot recover through an ITC**. You do not have to be registered for GST/HST to apply for a municipal rebate.

Note

Municipalities in Nova Scotia and New Brunswick may be eligible to claim a 57.14% rebate of the provincial part of HST. Municipalities in Newfoundland and Labrador are not eligible for this rebate except for qualifying

non-profit organizations and charities that are designated to be a municipality for purposes of claiming a rebate. In this case, the rebate would be 50% of the provincial part of HST related to the non-designated activities, and 0% of the provincial part of the HST related to the designated activities.

If you are not a GST/HST registrant, you can apply for a 100% rebate of the GST (or of the federal part of HST) you paid on **all** of your eligible purchases and expenses (see the next section). If you are a municipality in Nova Scotia or New Brunswick, you may also claim a 57.14% rebate of the provincial part of HST for these expenses.

If you are a GST/HST registrant, you can apply for a 100% rebate of the GST (or of the federal part of HST) you paid on eligible purchases and expenses (see the next section) for which you **cannot** claim ITCs. If you are a municipality in Nova Scotia or New Brunswick, you may also claim a 57.14% rebate of the provincial part of HST for these expenses.

If you buy goods or services to be used primarily (more than 50%) by another selected public service body (university, public college, school authority, or hospital authority) in that other body's activities, you have to claim a rebate at the rate that applies to the other selected public service body for the goods and services.

Example

You buy a computer primarily for use by a hospital authority. You qualify for a rebate of the GST/HST on this computer based on the prescribed rate for hospital authorities, which is 83%.

Eligible purchases and expenses

You can claim a 100% municipal rebate for the GST or the federal part of the HST that you paid or owe and for which you cannot claim an ITC. Eligible purchases and expenses include:

- general operating expenses, such as rent, utilities, and administration expenses;
- certain allowances and reimbursements you pay to employees;
- goods and services used, consumed, or supplied in making exempt supplies; and
- capital property that you intended to use primarily (more than 50%) in making **exempt** supplies when you bought the property.

The following purchases are among those **not** eligible for a municipal rebate:

- memberships in a dining, recreational, or sporting club;
- alcoholic beverages or tobacco products you sell and for which you are not required to collect GST/HST (except when the alcohol or tobacco is included in the price of a meal); and
- goods and services you buy to provide long-term residential accommodation, where 90% or more of the accommodation is available to persons other than

seniors, youths, students, or individuals with a disability or in distress.

Note

If you provide long-term accommodation on a rent-gear-to income basis, see Example 1 on page 8.

Apportionment of rebates

If you engage in activities as a registered charity or a qualifying non-profit organization that are separate from your municipal activities, you have to apportion your rebate. Claim the 100% rebate for the GST or the federal part of the HST for your municipal activities and 50% for your other activities.

Example

You operate a separate nursing home as a registered charity. You are entitled to a 50% rebate for purchases that relate to the operation of the nursing home, and a 100% rebate of the GST or the federal part of the HST for purchases relating to exempt municipal activities.

General operating expenses

General operating expenses are purchases you make for the overall operation of your municipality. These expenses include management, administration, and other support functions of your municipality, as well as office supplies such as paper, computer disks, pens, utilities, and equipment and office rentals.

If you are not a GST/HST registrant, you claim a 100% municipal rebate of the GST (or of the federal part of HST) you paid on all eligible purchases and expenses. Municipalities in Nova Scotia and New Brunswick may also claim a 57.14% rebate of the provincial part of HST for these expenses.

If you are a GST/HST registrant and you can attribute an expense directly to a specific use, the rules are as follows:

- You can claim an ITC if you incur an expense to provide taxable goods and services. For example, if you pave private owners' driveways in a new subdivision and bill the owners directly for this service, you can claim an ITC for the GST/HST you pay on expenses used to provide the service.
- You can claim a rebate if you incur an expense to make exempt supplies. If you intend to use your general operating expenses all or substantially all (90% or more) to provide exempt goods and services, you can claim a rebate of 100% of the GST (or of the federal part of HST) you pay on all of these expenses. Municipalities in Nova Scotia and New Brunswick may also claim a 57.14% rebate of the provincial part of HST for these expenses.

If you cannot directly attribute your general operating expenses to a specific use, you have to apportion the GST/HST you pay on these expenses. This applies if your municipality makes both taxable and exempt supplies. You can claim an ITC on the part of the GST/HST paid on your general operating expenses used in commercial activities and a rebate on the part for which you cannot claim ITCs

(for example, purchases used in exempt activities). Therefore, you have to apportion the GST/HST you pay on your general operating expenses between commercial and exempt activities.

Example

You are a municipality in Manitoba and your overhead expenses for both commercial and exempt activities combined are \$1,000 per month plus \$60 GST. If 30% of your activities involve providing taxable goods and services and 70% involve providing exempt goods and services, you claim on your GST/HST return an ITC for 30% of the GST you paid on your monthly overhead expenses. The balance of GST that is not eligible for an ITC qualifies for a 100% rebate.

GST paid	\$60	
Exempt part: $\$60 \times 70\%$	\$42	
100% rebate		\$42
Taxable part: $\$60 \times 30\%$	\$18	
Input tax credit		\$18

The method you use to determine the part of your general operating expenses used in your commercial activities and in exempt activities has to be fair and reasonable for your specific circumstances, and you have to use it consistently throughout the fiscal year.

How to apply for the rebate

Registrant municipalities

Your municipal rebate can be offset against any net tax you owe on your GST/HST return. See our guide RC4034, *GST/HST Public Service Bodies' Rebate*, which includes Form GST66, *Application for GST/HST Public Service Bodies' Rebate and GST Self-Government Refund*, and completion instructions.

You have up to four years from the due date of your GST/HST return for the claim period in which you made the purchase to apply for the municipal rebate. You do not have to include original invoices or receipts with the rebate application. However, for audit purposes, you have to keep the documents for six years from the end of the calendar year to which they relate.

Your branches or divisions may be entitled to file their own GST/HST returns and rebate applications. To do so, each branch or division has to meet certain conditions. For example, each branch or division has to be separately identified by its location or the nature of its activities, and separate books and records must be kept. The head office has to complete Form GST10, *Application or Revocation of the Authorization to File Separate GST/HST Returns and Rebate Applications for Branches or Divisions*, and return it to us.

Non-registrant municipalities

You can mail us your municipal rebate application every six months (that is, at the end of your second and fourth fiscal quarters). The guide RC4034, *GST/HST Public Service Bodies' Rebate* includes Form GST66, *Application for GST/HST Public Service Bodies' Rebate and GST Self-Government Refund*, as well as completion instructions. You have up to four years from the end of the claim period

in which you made a purchase to claim a rebate for the GST/HST on that purchase.

You can file one rebate application for the municipality as a whole. However, if your municipality has many branches or divisions, you can also apply to have the branches or divisions file separate rebate applications. To do so, each branch or division has to meet certain criteria. For instance, each branch or division has to be separately identified by its location or the nature of its activities, and separate books and records must be kept. To apply, your head office has to complete Form GST10, *Application or Revocation of the Authorization to File Separate GST/HST Returns and Rebate Applications for Branches or Divisions*, and return it to us.

Simplified method for claiming rebates

The simplified method provides both registrant and non-registrant municipalities with an easier way to calculate their municipal rebates. You do not have to file an election with us to use this method.

Registrant municipalities

To determine the amount of your rebate under this method, multiply the amount of your eligible purchases and expenses for which you cannot claim ITCs by the fraction 6/106 (before July 2006, the fraction was 7/107) if you paid or owe GST or 6/114 (before July 2006, the fraction was 7/115) if you paid or owe HST. Claim 100% of the result of this calculation as your rebate. Municipalities in Nova Scotia and New Brunswick can also claim a rebate of the provincial part of HST. The rebate for the provincial part of HST is 57.14% of 8/114 (before July 2006, 8/115) of the total amount of your eligible purchases and expenses for which you cannot claim ITCs.

You can use the simplified method to calculate your rebates if your worldwide annual taxable supplies are \$500,000 or less in your last fiscal year or in the previous fiscal quarter in your current fiscal year. This total includes the annual taxable supplies of your associates, but does not include sales of financial services or capital real property.

In addition, your taxable purchases (other than zero-rated) must have been \$2 million or less in your last fiscal year, and it must be reasonable to expect that your taxable purchases in the current fiscal year will not be more than \$2 million.

Non-registrant municipalities

To calculate your rebate, claim 100% of 6/106 (before July 2006, 7/107) of your eligible purchases and expenses on which you paid GST, or 6/114 (before July 2006, 7/115) of your eligible purchases and expenses on which you paid HST. Municipalities in Nova Scotia and New Brunswick can also claim a rebate of the provincial part of HST. The rebate for the provincial part of HST is 57.14% of 8/114 (before July 2006, 8/115) of your eligible purchases and expenses.

You can use the simplified method to calculate your rebates if your taxable purchases (other than zero-rated) were \$2 million or less in your last fiscal year, and it is reasonable to expect that your taxable purchases in the current fiscal year will not be more than \$2 million.

Example

On, or after July 1, 2006, your municipality (located in Ontario) provides exempt arts and crafts programs to children. For this example, the provincial sales tax (PST) is 8% and is not rebatable or refundable to your municipality.

Item	Amount	GST	PST	Total
Rent	\$1,500	\$ 90	–	\$1,590
Employees' salaries	\$1,000	–	–	\$1,000
Advertising	\$ 100	\$ 6	–	\$ 106
Equipment	\$ 400	\$ 24	\$ 32	\$ 456
Supplies	\$ 300	\$ 18	\$ 24	\$ 342
Total	\$3,300	\$ 138	\$ 56	\$3,494

Step 1

Taxable expenses = total expenses minus employees' salaries
= \$3,494 – \$1,000 = \$2,494

Step 2

Multiply \$2,494 by 6/106 = \$2,494 × 6/106 = \$141.17

As the municipal rebate rate is 100%, you can claim the full amount of the GST you calculated in Step 2 (\$141.17) as your rebate.

Other rebates available

Goods or services removed from a participating province

Goods

Municipalities that are in non-participating provinces can get a rebate of the 8% provincial part of the HST they pay when they buy goods in a participating province, but consume, use, or supply the goods exclusively (generally 90% or more) outside the participating provinces. You can apply for this rebate by filing Form GST495, *Rebate Application for Provincial Part of Harmonized Sales Tax (HST)*. To qualify for this rebate, you have to meet the following conditions:

- you are not eligible to claim an ITC for the GST/HST paid for the goods;
- you remove the goods from the participating province(s) to a non-participating province no later than 30 days after the goods are delivered to you;
- you file Form GST495 no later than one year after the day you remove the goods from the participating province;
- you provide proof that you paid the applicable PST to a non-participating province;
- each receipt is for \$50 or more (before taxes) for purchases of goods eligible for the rebate; and

- your receipts total \$200 or more (before taxes) for purchases of goods eligible for the rebate.

The following goods are **not eligible** for this rebate:

- excisable goods, such as beer, spirits, wine, and cigarettes; and
- most gasoline, diesel fuel, and certain other types of fuel.

Intangible property and services

Municipalities in Canada can get a rebate of the 8% provincial part of HST if they receive intangible property (for example, a licence to use a computer program) or services in a participating province that will be consumed, used, or supplied primarily (more than 50%) outside the participating provinces. Calculate the rebate using the formula

$$A \times B$$

A is the 8% provincial part of HST; and

B is the extent (as a percentage) to which, when you buy the intangible property or service, its consumption, use, or supply is to be outside the participating provinces.

You can apply for the rebate by filing Form GST189, *General Application for Rebate of GST/HST*, using code 13. To qualify for the rebate, you have to meet the following conditions:

- you are not eligible to claim an ITC for the HST paid for the property or services;
- you file Form GST189 no later than one year after the day the tax became payable;
- each receipt is for \$50 or more (before taxes) for purchases of intangible property or services eligible for the rebate; and
- your receipts total \$200 or more (before taxes) for purchases of intangible property or services eligible for the rebate.

For more information on these rebates, see our Technical Information Bulletin B-080, *Rebates of HST on Supplies Made From the Participating Provinces*.

Purchases of printed books

Municipalities can claim a 100% rebate of the GST or the federal part of HST paid or owed on printed books, audio recordings of printed books, and printed versions of religious scriptures that they buy or import other than for resale.

Claim the rebate on **line 307** of part E of your public service bodies rebate application.

A provincial point-of-sale rebate is also available for the 8% provincial part of HST on these publications purchased in a participating province. This means that the person selling the books should give you the rebate at the time of the sale.

For more information, see our guide RC4034, *GST/HST Public Service Bodies' Rebate*.

Sales of personal property by a non-registrant municipality

Municipalities and designated municipalities that are not registrants may claim a rebate of tax when they make a taxable sale of capital personal property, or designated municipal property that is capital property. The rebate is equal to the lesser of the basic tax content of the property at that time, or the tax that is, or would have been payable if there was not a tax-free rollover of the property.

Effective January 31, 2004, there is a new calculation to determine the basic tax content of property of a municipality. These new rules exclude the GST and the federal part of the HST payable before February 2004, for the purpose of determining, at any time on or after January 31, 2004, the basic tax content of property of a municipality. For more information, call us.

You can claim the rebate using Form GST189, *General Application for Rebate of GST/HST*, using Code 7. The application must be filed within two years after the day the amount payable on the sale became due or was paid without having become due.

Note

This applies to supplies for which the amount payable became due, or was paid without having become due, after March 9, 2004. This rebate does not apply to any supply made under an agreement in writing entered into before March 10, 2004.

Capital property

Capital property includes most items for which you can claim capital cost allowance under the *Income Tax Act*. It includes equipment, machinery, office furniture, computers, and photocopiers, as well as some real property, such as land and buildings.

Claiming input tax credits on capital property

As a GST/HST registrant, you do not apportion the GST/HST you paid or owe on acquisitions of capital property between commercial activities and the making of exempt supplies. Instead, you have to use the **primary use rule**. Under this rule, you can claim a full ITC on the acquisition or importation of capital property if you intend to use it **primarily** (more than 50%) in your commercial activities. If you intend to use the capital property less than primarily in commercial activities, you cannot claim ITCs but you can apply for the 100% municipal rebate of the GST or the federal part of the HST you paid or owe.

Supplies of capital personal property

Capital personal property includes items such as office furniture, equipment, and computers, but does not include real property. Most supplies of capital personal

property made by a municipality are taxable and, if the municipality is a registrant, it has to collect tax on such a supply.

Generally, if a non-registrant municipality is a small supplier, it does not have to collect tax on a taxable supply of capital personal property that it makes. However, under recent amendments to the GST/HST legislation, if the supply is a taxable **sale** of capital personal property, as opposed to a lease, for example, the non-registrant municipality that is a small supplier has to collect tax on the sale. As well, a non-registrant small supplier that is a designated municipality has to collect tax on a taxable sale of designated municipal property that is capital property of the person.

Real property

Most sales, leases, and other supplies of real property made by a municipality and most supplies by a designated municipality of real property that is designated municipal property of the person, are taxable supplies. This applies to supplies for which the amount payable became due, or was paid without having become due after March 9, 2004, unless the supply is made under a written agreement entered into before March 10, 2004. Registrant municipalities and registrant designated municipalities have to charge and collect tax on these supplies. However, certain supplies of residential complexes remain exempt.

Note

If a non-registrant municipality that is a small supplier makes a taxable **sale** of real property, the municipality has to collect tax on the sale even though it is not a registrant unless the following exceptions apply.

If the municipality makes a taxable sale of real property, the municipality does not have to collect the tax payable if the purchaser is registered for the GST/HST and in the case of a purchaser who is an individual, the property is neither a residential complex nor supplied as a cemetery plot or place of burial, entombment or deposit of human remains or ashes.

Where a municipality sells an exempt residential complex to a recipient, the municipality and the recipient may, under specific circumstances, jointly elect to make the supply taxable. In this case, the municipality does not have to collect the tax payable.

Self-supply rules for builders who are a municipality

Special self-supply rules apply to a builder who is a municipality that constructs, substantially renovates, or builds an addition to a multiple unit residential complex where 10% or more of the residential units are intended to be supplied to seniors, youths, students or individuals with special needs or limited financial resources.

During the construction phase, you can register for the GST/HST and claim ITCs for the goods and services you acquire. Under the self-supply rules, when you first give possession of a unit of the building under a lease, licence,

or similar arrangement to an individual for use as a place of residence, a deemed sale occurs and you, as the builder, have to calculate and account for GST/HST based on the greater of the following:

- GST or HST on the fair market value of the building and the land that forms part of the residential complex; and
- the total of all the GST/HST you paid or owe for the construction of the building, the land that forms part of the complex, and any improvements to it.

Example

Your municipality in New Brunswick registers for the GST/HST to construct a multiple unit residential complex where 10% or more of the residential units are intended to be supplied to low-income individuals. The building's fair market value is less than the cost to construct it. When you first give possession under a lease of a unit in the building to an individual as a place of residence, you have to calculate and account for the deemed tax which is equal to the total of all the GST/HST payable for the construction of the building, purchase of the land that relates to the complex, and any improvements to it, since the fair market value is less than the total of these costs. The HST deemed to be collected will be included in determining your net tax. Any positive amount of net tax must be remitted. As a municipality, you can claim the 100% municipality rebate for the federal part of the deemed HST paid on self-assessment and the 57.14% rebate of the provincial part of the deemed HST paid.

Expropriation

A municipality might, while acting as an authority of the province, expropriate real property of one of its residents for its own use. This might occur, for example, where a municipality intends to open or expand a highway and needs the surrounding non-municipal land to accomplish this.

Generally, the transfer of ownership that occurs when real property is expropriated by a municipality is considered to be a sale for GST/HST purposes, regardless of whether the transfer is voluntary or not. The tax status of the expropriated property depends on who sells the property (such as an individual, or a corporation), and the type of real property expropriated (vacant land or a residential complex, for example). If you have to pay GST/HST on the expropriation of real property, see the sections "Input tax credits" on page 15, or "GST/HST public service bodies' rebate" on page 16 for your ITC or rebate eligibility.

Seizures and repossessions

When a municipality seizes or repossesses personal or real property (other than property under a lease, licence, or similar arrangement) from a person to satisfy a debt or other obligation, GST/HST does not apply to the transfer of the property to the municipality resulting from the seizure or repossession.

Example

A resident of a municipality fails to pay his municipal taxes and the municipality seizes the property. GST/HST does not apply to the transfer of the property from the resident to the municipality.

Where a municipality causes a supply of property (as in a power of sale) to satisfy a debt owing by a debtor, this is also considered to be a seizure or repossession.

When a municipality causes the sale of property, usually by way of an auction, for unpaid municipal taxes, two separate transactions take place at the time of sale:

- The debtor transfers the property to the municipality. GST/HST does not apply to the transfer.
- The municipality sells the property to a purchaser. GST/HST applies where the sale is taxable. See the section "Real property" on page 20 to determine if GST/HST applies to the sale of real property.

Redemption of property

Where a municipality seizes and sells property of a debtor, the debtor might have a legal right to buy back the property (that is, a right of redemption), usually within a certain period of time. Special rules apply to the redemption if the sale of the property between the municipality and the purchaser was taxable.

To illustrate how the rules apply, we will use the example of a municipality that causes the sale of real property of one of its residents (the debtor) as a consequence of the resident's unpaid municipal taxes.

Example

A buyer at an auction buys the seized real property of a debtor for an amount, plus GST. Under the applicable law, the original debtor has the right to redeem the property within a certain period of time, and does so. The redemption of the property by the original debtor is considered to be a sale by the auction buyer for no cost. The debtor is considered not to have ever sold the property or to have re-acquired it. If the debtor reimburses the auction buyer or the municipality the tax that the buyer paid on buying the property, we consider the debtor to have paid tax in error equal to the reimbursed tax amount, and the debtor can claim a rebate for tax paid in error for the amount.

Special Quick Method of Accounting

The Special Quick Method is a simplified accounting option available to eligible municipalities and designated municipalities that are registrants for GST/HST. This method reduces paperwork and makes it easier to calculate GST/HST remittances and file GST/HST returns because it eliminates the need to keep track of the actual

GST/HST paid on purchases, or to separate purchases that are for commercial activities versus those for making exempt supplies.

When you use the Special Quick Method, you still collect GST or HST on the goods or services you supply. However, to calculate the amount of GST/HST to be remitted, multiply the amount of your GST/HST-included supplies for the reporting period by the remittance rate, or rates, that applies in your situation.

The Special Quick Method remittance rates are less than the 6% (before July 2006, 7%) or 14% (before July 2006, 15%) rates of tax that you collect. This means that you remit only part of the tax you collect. Since you cannot claim ITCs on most of your purchases when you use this method, the part of the tax that you keep accounts for the approximate value of the ITCs you would normally have claimed.

Note

Whether the Special Quick Method will be more beneficial for you to use than the regular method depends on your specific situation.

Remittance rates for municipalities using the Special Quick Method vary according to the place of supply and the province in which the municipality is located. If all or substantially all (more than 90%) of the supplies are made either within or outside a participating province, you can use one remittance rate.

The following tables outline the Special Quick Method remittance rates depending on where the municipality is located, where the supply is made, and when.

Supply made on or after July 1, 2006:

Municipality in:	Supply made in:	Special Quick Method rate
Nova Scotia or New Brunswick	Participating province	11.5%
	Non-participating province	4.8%
Newfoundland and Labrador	Participating province	10.5%
	Non-participating province	3.7%
Non-participating provinces	Participating province	12.3%
	Non-participating province	5.7%

Supply made before July 2006:

Municipality in:	Supply made in:	Special Quick Method rate
Nova Scotia or New Brunswick	Participating province	12.3%
	Non-participating province	5.7%
Newfoundland and Labrador	Participating province	11.2%
	Non-participating province	4.6%
Non-participating provinces	Participating province	13%
	Non-participating province	6.5%

Note

The rates indicated in this table apply to reporting periods ending after January 2004. For rate information on the reporting periods ending before February 2004, or ending after January 2004, but including February 1, 2004, call our Business Enquiries line at 1-800-959-5525 or Revenu Québec at 1-800-567-4692.

For full details on using the Special Quick Method, see our booklet RC4247, *The Special Quick Method of Accounting for Public Service Bodies*.

How to apply to use the Special Quick Method

You can use the Special Quick Method whether you file GST/HST returns monthly, quarterly, or annually. Apply to use this method by filing Form GST287, *Election or Revocation of the Election by Public Service Bodies to Use the Special Quick Method of Accounting*, or by calling 1-800-959-5525.

If you file monthly or quarterly GST/HST returns, you have to make your election on or before the due date of the return in which you begin using the Special Quick Method.

If you file annual returns, you have to make your election on or before the first day of your second fiscal quarter.

If you have branches or divisions, your election to use this method will apply to all of your branches or divisions, whether or not they file separate GST/HST returns. Once you decide to use the Special Quick Method, you have to use it for at least one year. You can keep using it without having to re-elect, as long as you remain eligible.

Special issues

Amalgamation of municipalities

Where two or more incorporated municipalities merge, or amalgamate, to form one new incorporated municipality, the newly formed municipality is generally treated for GST/HST purposes, as a person separate from each of the former municipalities.

Is new registration required?

If you, as the newly amalgamated municipality, provide taxable goods and services in Canada, you have to register for GST/HST, unless you are a small supplier, as discussed under the heading "Registering for GST/HST" on page 10.

The former municipalities generally have to cancel their GST/HST registrations and file their returns up to the day before the date of amalgamation. Any branch or division accounts must also be cancelled under their old business numbers (BNs). You may apply for new branch or division accounts under the newly amalgamated municipality's BN.

To simplify matters, we may permit a new municipality to keep the BN of one of its predecessors. Call our Business Enquiries line at 1-800-959-5525 to ask about this.

Updating elections

Most elections in effect under the former municipalities do not transfer over to the new municipality. So in most cases, the newly amalgamated municipality must re-elect.

Note

Where two or more municipalities merge or amalgamate and any of the predecessor municipalities had an election in effect to use the Special Quick Method, the election continues to be in effect as long as the newly amalgamated municipality is incorporated and meets all of the eligibility requirements for using this method.

History of predecessor municipalities

Although the new municipality is deemed to be a person completely separate from its predecessor municipalities, certain GST/HST entitlements or obligations of the new municipality are determined based on the history of its predecessors.

We consider the new municipality to be the same as, or a continuation of each of the former municipalities, regarding real property purchased by the predecessors. For example, the basic tax content of the predecessors' real property immediately before the amalgamation, become the basic tax content of the new municipality's real property immediately after the amalgamation.

In addition, the new municipality is considered to be a continuation of each of its predecessors for:

- determining ITC entitlements for GST/HST paid on goods and services purchased by a predecessor;
- bad debt adjustment – once a debt becomes bad, and you have written it off in your books, you can recover some of the tax you previously remitted on the original supply;
- the threshold amounts used for determining reporting periods – the threshold amount will be based on the combined supplies of the predecessor municipalities; and
- prescribed purposes.

Transferring of assets and property to the newly amalgamated municipality

The transfer of any assets due to the amalgamation, by a predecessor to the newly amalgamated incorporated municipality, is not taxable.

Municipal designation or determination

If a predecessor organization was designated or determined to be a municipality, the newly amalgamated organization has to apply for a new municipal designation or determination. See the section "Who qualifies as a municipality?" on page 7 for information on how you can apply.

Cost-sharing arrangements

Cost-sharing is a common way for two or more municipalities to share costs when buying third-party services, or when jointly operating programs such as 911 dispatch services or a recreational centre. This arrangement

generally involves sharing the costs of expenses such as office space, employee wages, and utilities.

In a typical cost-sharing arrangement, one of the members of the group acts as an "administrator," handling the day-to-day operating duties such as buying goods and services from third parties and paying the shared wages and benefits of employees. The administrator pays all of the costs initially, and receives reimbursement of their share of the costs from the other members of the group.

The tax status of the various supplies under a cost-sharing arrangement depends on the nature of the relationship between the administrator and the other members of the arrangement.

Non-taxable reimbursement

If the administrator is acting as an **agent** of the other members, we generally do not consider the reimbursements to be made as payment for a supply of goods or services. Therefore, the administrator does not charge GST/HST on the amounts reimbursed by the other members of the group.

If, on the other hand, the administrator is not acting as an agent for the other members of the arrangement, there is a **supply** of the goods or services by the administrator to the other members of the group. The tax status of that supply depends on the nature of the good or service being supplied by the administrator, and whether or not the supply is exempt. If the supply is not exempt, the goods or services are taxable.

Municipal officers' allowance

When you pay a non-accountable allowance to a municipal officer for expenses (all or substantially all of which are taxable at 6% (before July 2006, at 7%) or 14% (before July 2006, at 15%) that they incur in Canada, or for the use of a motor vehicle in Canada, you may be eligible to claim a GST/HST municipal rebate on the allowance.

You can claim the rebate if the following conditions are met:

- the allowance is reasonable (for example, where the municipal officer regards the allowance as being enough to cover the actual expenses for which the allowance was paid);
- the allowance is not included in the officer's income when determining their income for income tax purposes; and
- the allowance is used for supplies purchased in Canada, which is all or substantially all taxable (other than zero-rated), or for the use of a motor vehicle in Canada, for the activities of the municipality.

We consider the municipality, not the municipal officer, to have received a supply and to have paid GST/HST equal to 6/106 (before July 2006, equal to 7/107) or 14/114 (before July 2006, equal to 15/115) of the amount of the allowance. Accordingly, you can claim a 100% municipal rebate of the GST or the federal part of the HST deemed to have been paid on the allowance.

Example

A municipality pays the mayor \$60,000 annually, which includes a non-accountable expense allowance of \$20,000 authorized by the provincial *Municipal Act*. The allowance is a limited and predetermined payment made by the municipality to allow the mayor to defray the expenses associated with the mayor's office. The mayor is not accountable to the city council for how the money is used, nor does the mayor have to provide receipts or documentation to show how the money is spent. The municipality can claim a rebate of the tax it is considered to have paid for the allowance.

You calculate the amount of tax you are considered to have paid on the allowance as follows:

On or after July 1, 2006:

$\$20,000 \times 6/106 = \$1,132.07$ for purchases subject to GST

$\$20,000 \times 14/114 = \$2,456.14$ for purchases subject to HST

Before July 2006:

$\$20,000 \times 7/107 = \$1,308.41$ for purchases subject to GST

$\$20,000 \times 15/115 = \$2,608.70$ for purchases subject to HST

Calculate the amount of your rebate at the rate of:

- 100% of the GST, or the federal part of HST; and
 - 57.14% of the provincial part of HST in Nova Scotia and New Brunswick.
-

Grants and subsidies

As a municipality, you may provide or receive grants, contributions, subsidies, and similar payments. Often referred to as transfer payments, these are given for many different reasons ranging from a simple contribution made to a small non-profit organization, to major government-funded projects. When a transfer payment is made in the public interest or for charitable purposes, GST/HST does not apply on the payment.

However, if there is a direct link between a transfer payment made by the grantor and a taxable supply made by the recipient of the payment (including where the property or service is provided to a third party), the transfer payment may be taxable, and tax may need to be collected on the amount.

Since the tax treatment of transfer payments is generally complex (especially for a major government-funded project), and is determined on a case-by-case basis, call us or see our Technical Information Bulletin, B-067, *Goods and Services Tax Treatment of Grants and Subsidies*, for more information.

Appendix

The following is a list of technical information bulletins, guides, elections, and application forms we have mentioned throughout this guide. To get copies of these publications, visit our website at www.cra.gc.ca/forms or call us at 1-800-959-2221.

Technical information bulletins

B-067, *Goods and Services Tax Treatment of Grants and Subsidies*

B-080, *Rebates of HST on Supplies Made From the Participating Provinces*

Guides

RC4022, *General Information for GST/HST Registrants*

RC4034, *GST/HST Public Service Bodies' Rebate*

RC4082, *GST/HST Information for Charities*

Booklets

RC4247, *The Special Quick Method of Accounting for Public Service Bodies*

Elections and application forms

GST10, *Application or Revocation of the Authorization to File Separate GST/HST Returns and Rebate Applications for Branches or Divisions*

GST20, *Election for GST/HST Reporting Period*

GST31, *Application by a Public Service Body to Have Branches or Divisions Designated as Eligible Small Supplier Divisions*

GST66, *Application for GST/HST Public Service Bodies' Rebate and GST Self-Government Refund*

GST189, *General Application for Rebate of GST/HST*

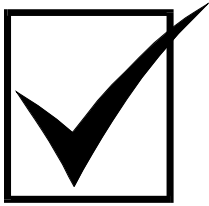
GST287, *Election or Revocation of the Election by Public Service Bodies to Use the Special Quick Method of Accounting*

GST469, *Direct Deposit Request*

GST495, *Rebate Application for Provincial Part of Harmonized Sales Tax (HST)*

Your opinion counts!

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



Please send your comments to:

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