

# GST/HST Info Sheet

## Water Haulers

February 2005

This info sheet provides information on the application of the GST/HST to unbottled water and delivery services provided by water hauler companies or water co-operatives. These persons are referred to in this Info Sheet as water haulers. It does not apply to governments<sup>1</sup>.

In this info sheet, “taxable” means subject to the GST/HST and “exempt” means not subject to the GST/HST.

Sales of unbottled water provided by water haulers are exempt. Therefore, water haulers do not collect the GST/HST on amounts charged for unbottled water (potable or non-potable).

Where a water hauler is supplying water on an exempt basis, its service of delivering the water is also exempt. Therefore, water haulers do not collect the GST/HST on a separate amount charged for the service of delivering their own exempt unbottled water.

Since both unbottled water and the delivery of the water are exempt from the GST/HST, water haulers cannot register for GST/HST purposes unless they are providing other goods and services that are taxable. A water hauler who is not registered may not claim input tax credits to recover GST/HST it has paid on purchases or expenses. However, it may be able to claim a public service body (PSB) rebate for those expenses. Details on the eligibility of the rebate are provided below.

<sup>1</sup> Unless the government body is designated to be a municipality in order to have its supplies of unbottled water exempt.

The exemption for unbottled water does not apply to drinking water that is dispensed from a vending machine or at the water hauler’s establishment.

The service of delivering unbottled water is taxable when a water hauler’s customer has title to the water, or purchases it from someone other than the water hauler that is delivering the water. Therefore, water haulers that are GST/HST registrants must collect the GST/HST on their delivery services if the unbottled water that they are delivering is not their own.

### **GST/HST registration**

A water hauler that has taxable sales (including rentals) must register for the GST/HST if total revenues from taxable sales in its last four calendar quarters or in a single calendar quarter are more than \$30,000 (\$50,000 if it is a PSB such as a non-profit organization). If its taxable sales are below this threshold, a water hauler may still register voluntarily.

If it is a GST/HST registrant, a water hauler may claim input tax credits to recover GST/HST it has paid on purchases or expenses to the extent they are used in commercial activities (i.e., to provide taxable goods and services). If 90% or more of a purchase or expense relates to taxable goods or services, the water hauler may claim an input tax credit for the full amount of GST/HST paid on the purchase or expense. If a water hauler is below the threshold and chooses not to register, it does not charge GST/HST on its taxable sales and it cannot claim input tax



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credits. More details on input tax credit rules are provided below.

If a water hauler is designated as a municipality in respect of its unbottled water and delivery services, it may claim a PSB rebate for the GST/HST it has to pay on purchases or expenses that it cannot claim as an input tax credit to the extent they are used to provide exempt water and delivery services. It does not need to be registered to claim the rebate. The designation process and PSB rebate are explained below.

### **Input tax credits**

Water haulers cannot claim input tax credits for GST/HST paid on purchases or expenses used wholly to provide exempt water and delivery services.

However, a water hauler that provides both exempt water and delivery services and taxable delivery services may be eligible to claim, as an input tax credit, a portion of the GST/HST it has to pay on a purchase or expense used to provide both exempt and taxable delivery services, provided that it is a GST/HST registrant.

In the case of operating expenses, such as repairs and maintenance services or utilities, a water hauler may be eligible to claim an input tax credit provided that the purchase or expense is used more than 10% in commercial activities (i.e., to provide taxable goods and services). An input tax credit may be claimed to the extent it is used in commercial activities. For example, if 70% of a fuel bill relates to exempt water and delivery services and 30% relates to taxable delivery services, a water hauler may claim an input tax credit for 30% of the GST/HST it has to pay on the fuel bill.

In the case of capital property, such as trailers or office furniture, a water hauler may claim an input tax credit only if the capital property is used primarily (more than 50%) in its commercial activities. If this is the case, the water hauler may claim a full input tax credit for the GST/HST paid on the capital property. An input tax credit may not be claimed for the GST/HST paid on the purchase of capital property if that property is used 50% or less

in commercial activities. The method of determining the extent of use in commercial activities must be used for at least one year before it can be changed to another method.

### **Public service body (PSB) rebate**

A water hauler may apply to be designated as a municipality by the Canada Revenue Agency (CRA) in respect of activities specified in the designation. Once designated, it would be able to claim the PSB rebate for GST/HST paid on its purchases or expenses that are used wholly or partially to provide exempt water and delivery services. This designation applies only to the exempt water and delivery services specified in the designation. That is, a water hauler would be entitled to claim a rebate of GST/HST paid on purchases or expenses to the extent that they were for use in the designated activity, which in this case, would be supplying exempt water and delivery services.

Effective February 1, 2004, water haulers designated as municipalities may claim a 100% rebate of the GST or the federal component of the HST paid on these expenses. Before that date, they were able to claim a 57.14% rebate. In Nova Scotia and New Brunswick, they are able to claim 100% of the GST or the federal component of the HST and 57.14% of the provincial component of the HST. In Newfoundland-and-Labrador, water haulers that are designated as municipalities may claim a rebate only in respect of the federal component of the HST. For more information, refer to form GST66, *Application for GST/HST Public Service Bodies' Rebate and GST Self-Government Refund* and the guide RC 4034, *GST/HST Public Service Bodies' Rebate*.

A letter requesting to be designated as a municipality in respect of unbottled water and delivery services should be sent to:

Director  
Public Service Bodies and Governments Division  
Excise and GST/HST Rulings Directorate  
Canada Revenue Agency  
Ottawa, ON K1A 0L5

In support of this request, the applicant should provide copies of its governing documents, a description of the goods and services it provides (e.g., water and delivery services) and the area in which they are provided, a copy of a customer invoice, evidence of ownership of the unbottled water or, where required, evidence that the applicant is allowed to take water from its source.

Other changes affecting sales by municipalities, input tax credit entitlements and the basic tax content of certain municipal properties have also come into effect. For more information on these changes, contact a GST/HST Rulings Centre; if you are in Quebec, contact Revenu Québec.

#### **Question**

Water Services Co. is a GST/HST registrant in Saskatchewan that purchases and sells unbottled water and delivers it to its customers. It charges them a separate amount for the delivery of the water. Does the GST apply to sales of the unbottled water and delivery services?

#### **Answer**

No, sales of the water and the delivery of the water are exempt even if there is a separate charge for the delivery service. The delivery service is exempt because it is provided by the same person that is providing the exempt water. Water Services Co. may apply to be designated as a municipality. Once designated, it may claim the PSB rebate for the GST/HST paid on its purchases or expenses that are used to provide its exempt unbottled water and delivery services.

#### **Question**

ABC Hauling Inc. delivers unbottled water to rural customers. The customers have purchased permits in their own names to extract water from a public source such as a stream or river. Does GST/HST apply to the delivery services provided by ABC Hauling Inc.?

#### **Answer**

Yes, the GST/HST applies to the water delivery services. ABC Hauling Inc. is merely delivering water that is the property of its customers. Since ABC Hauling has not purchased the permits for the water, it is not considered to be providing the water. If ABC Hauling Inc. is a GST/HST registrant, it must collect the GST/HST on amounts charged for these water delivery services and it may claim input tax credits for the GST/HST it has to pay on related expenses.

#### **Question**

Water Services Inc., a GST/HST registrant, either purchases water or extracts it from a river, obtaining a permit to do so where necessary. It uses the water to provide various services to its customers such as spraying roads or fires, flushing boilers, and flooding or freezing fields. Does GST/HST apply to the services provided by Water Services Inc.?

#### **Answer**

Yes, GST/HST applies to the services provided by Water Services Inc. even if Water Services Inc. charges an amount for water, water and delivery services, or just a delivery service. The services provided by Water Services Inc. are not considered to be sales and delivery of water. Rather, Water Services Inc. is using the water to provide the services of road or fire spraying, boiler flushing or field flooding or freezing. The method of invoicing does not change the nature of the service.

#### **Question**

XYZ Trucking Services extracts water free of charge from a lake in Newfoundland-and-Labrador and hauls it to a farm where it fills both a cattle dugout and well (low due to drought) and a holding tank used on the farm to store non-potable water. Should XYZ Trucking Services collect the HST on the amounts charged?

#### **Answer**

No, XYZ Trucking Services should not collect the HST on the amounts charged since its sales of unbottled water and the delivery of the water are exempt. The water does not have to be potable to be exempt. XYZ Trucking Services cannot claim input

tax credits for the HST it has to pay on expenses or purchases related to the sale.

XYZ Trucking Services may apply to be designated as a municipality. This designation applies only to the exempt water and delivery services specified in the designation. Once designated, it may claim the PSB rebate for the tax paid on purchases or expenses that are used to provide its exempt sales.

XYZ Trucking Services may claim the PSB rebate for the federal component of the HST. Water haulers in Newfoundland-and-Labrador may not claim a rebate of the provincial component of the HST.

### Question

Rural Hauling Services Inc. is a GST/HST registrant in Saskatchewan that provides both exempt unbottled water and delivery services and taxable deliveries of water and other products using the same trailer for both types of deliveries. Is Rural Hauling Services Inc. able to claim an input tax credit for the GST it has to pay on the purchase of the trailer used to provide both exempt water and delivery services and taxable delivery services?

### Answer

If the trailer (which is capital property) is used primarily to provide taxable delivery services, Rural Hauling Services Inc. may claim a full input tax credit for all of the GST paid on the purchase of the

trailer. If the trailer is used 50% or more to provide exempt water and delivery services, Rural Hauling Services Inc. is not entitled to claim an input tax credit for the GST paid on its purchase. It may however claim input tax credits for the GST it has to pay on operational expenses such as fuel or utilities to the extent they are used to provide taxable delivery services—provided that use is more than 10%.

If Rural Hauling Services Inc. is designated as a municipality by the CRA, it may claim a 100% rebate for the GST paid on purchases or expenses that it cannot claim as an input tax credit to the extent they are used to provide exempt water and delivery services.

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Rural Hauling Services pays \$10,000 and \$700 GST to purchase the trailer. Using the trailer to deliver water, Rural Hauling Services Inc. earns 60% revenues for exempt water and delivery services and 40% revenues for taxable services. If the Rural Hauling Services allocates on the basis of revenue, it would not be entitled to claim an input tax credit for the GST paid on the purchase of the trailer. If designated as a municipality in respect of its exempt water and delivery services it would be entitled to claim a PSB rebate of \$420 ( $100\% \times \$700 \times 60\% = \$420$ ).

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

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

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

Reference in CRA publications is made to the harmonized sales tax (HST) that applies to property and services provided in Nova Scotia, New Brunswick and Newfoundland-and-Labrador (the “participating provinces”) at a rate of 15%. The goods and services tax rate is 7%.