

# Canada Revenue Agency Notice

Notice 199

June 2005

## Procurement cards - Documentary requirements for claiming input tax credits

### Eligibility:

Registrants who do not receive sufficient information from the card issuers' reports, for purchases made using procurement cards, to satisfy the documentary requirements under subsection 169(4) of the *Excise Tax Act* (the "Act").

Registrants whose activities are all or substantially all (90% or more) commercial activities, as defined in subsection 123(1) of the Act, except provincial gaming authorities, as defined in the *Games of Chance (GST/HST) Regulations*.

### Legislative Reference(s):

Section 169 of the Act and *Input Tax Credit Information (GST/HST) Regulations*

### Purpose:

Allow eligible registrants to claim input tax credits (ITCs), for purchases made using procurement cards, based on an estimated amount of tax paid, established using ratios. The policy is restricted to purchases under \$1,000 that are made using procurement cards.

### Effective Date:

The policy is effective as of the date of issue.

### Summary:

This policy statement represents the Canada Revenue Agency's (the "CRA") approach to the treatment of procurement card purchases and the claiming of related input tax credits under the Act.

Given the complexities that would result in including entities involved in both taxable and exempt activities, the CRA's Audit Policy on procurement cards only applies to

registrants who acquire goods and services for use, all or substantially all, in commercial activities. As a result, entities such as Municipalities, Universities, Schools and Hospitals (MUSH) as well as Financial Institutions are not eligible to use the policy on procurement cards.

Although the activities of provincial gaming authorities, as defined in the *Games of Chance (GST/HST) Regulations*, are all or substantially all commercial activities within the meaning of the Act, they do not claim ITCs for their inputs related to gaming supplies. The net tax of provincial gaming authorities is determined in accordance with the special rules under the *Games of Chance (GST/HST) Regulations*. As a result, provincial gaming authorities are excluded from the application of the policy on procurement cards.

Pursuant to subsection 169(5) of the Act, the Minister may exempt a registrant from the ITC documentary requirements of subsection 169(4). The exemption for purchases made using procurement cards will only apply provided all the conditions under this policy are met.

The registrant will be required to provide, along with its request for exemption, electronic data (see Annex B) showing purchases made with procurement cards for the year preceding the request, for a sample period. This sample must include complete data for four full months of transactions, one month of each quarter, consistently selected. The registrant will have analyzed supporting documents in this sample and calculated the eligible purchases' ratio (EPR) and the taxable purchases' ratio (TPR). Once the CRA has verified the sampling results and approved the eligible purchases' ratio and the taxable purchases' ratio, as described in paragraphs 12 and 13 below, the registrant will be allowed to claim ITCs at the rate of 7/107 or 15/115 (as appropriate) of the total amount of purchases appearing on the card issuers' report, to the extent of the ratios calculated in accordance with the audit policy on procurement cards. The total amount of purchases on the card issuers' report must include taxes.

This policy will exempt the registrant from the ITC documentary requirements for purchases made using procurement cards and consider the information provided in the card issuers' reports to be acceptable at that time. The ratios will be valid for a period of five years. However, the exemption can be revoked if the registrant is not compliant with all the GST/HST provisions under Part IX of the Act. The CRA can also reassess at a later date if the ratios are found to be applied incorrectly or not updated for significant changes during the period.

### **Issue:**

The procurement card issue revolves around the availability of adequate documentary information to identify the tax content of purchases made with the cards.

Generally, the statements/reports provided by the procurement card issuers to the registrants as supporting documentation for the purchases provide only minimal information. For example, some reports do not indicate the actual amount of tax paid or

payable for the supplies. In addition, many reports do not include a description of the type of goods and services acquired, nor do they include the merchant's registration number.

Thus, most registrants acquiring goods and services with procurement cards would not normally satisfy the ITC documentary requirements under subsection 169(4). Where the documentary requirements are not satisfied, input tax credits cannot be claimed until the registrant obtains additional supporting documentation to establish the particulars of the purchases, or obtains an exemption from the documentary requirements under subsection 169(5).

### **Administrative Policy:**

As authorized under subsection 169(5) of the Act, the Minister will exempt eligible registrants or class of registrants from the ITC documentary requirements of subsection 169(4), for purchases made using procurement cards, provided all the following conditions are met:

- 1) The written agreements between the registrant and the card issuer must state that the registrant is solely liable for the payments of all charges made in connection with the procurement card(s). Employees of the registrant cannot be parties to the card agreements. Payment of the balance due on the procurement card statements is to be made solely by the registrant to the card issuer and not to the employee as a reimbursement for the expenses incurred on the card.
- 2) The card(s) is (are) used for acquisition of goods and services made for consumption, use or supply in the course of commercial activities of the registrant. Where goods and services are acquired otherwise than exclusively for consumption, use or supply in the course of the registrant's commercial activities, any ITCs to which the registrant is entitled will be claimed in accordance with paragraphs 169(1)(a) to (c) and section 141.01 of the Act.
- 3) The registrant understands that, for the purposes of this policy, the following purchases are non-qualifying transactions:
  - i. All goods and services purchased outside Canada,
  - ii. All goods and services that are exempt or zero-rated,
  - iii. The non deductible portion of meals and entertainment (see paragraph 5 below),
  - iv. All goods and services purchased from non-registered persons,
  - v. Goods and services acquired otherwise than exclusively for consumption, use or supply in the course of the registrant's commercial activities (ITCs will be claimed in accordance with paragraph 2 above),
  - vi. Personal expenses, cash withdrawals, expenses for memberships or other section 170 restrictions,
  - vii. Individual purchases for which the purchase price is equal to, or greater than \$1,000,

- viii. Capital personal property under \$1,000 acquired for use otherwise than primarily in commercial activities of the registrant (as no ITC is allowed per subsection 199(2) of the Act),
  - ix. Improvement to capital personal property under \$1,000 acquired for use otherwise than primarily in commercial activities of the registrant (as no ITC is allowed per subsection 199(4) of the Act).
- 4) The registrant has segregated the non-qualifying transactions, as established in paragraph 3, from other purchases made with procurement cards. The registrant provides evidence satisfactory to the CRA, based on statistical sampling that the calculation of the EPR, as described in paragraph 12 below, takes into consideration the non-qualifying transactions. The registrant will be entitled to claim ITCs for such non-qualifying transactions that are eligible for ITCs, in accordance with subsection 169(1) of the Act, provided the documentary requirements under subsection 169(4) of the Act are met.
  - 5) The exemption from the ITC documentary requirements of subsection 169(4) of the Act will apply to meal and entertainment expenses acquired with procurement cards only where the registrant provides evidence satisfactory to the CRA that the registrant segregates such expenses to take into consideration the ITC restriction imposed under section 236 of the Act.
  - 6) Purchases made with procurement cards subject to the HST rate of 15% must be segregated from those taxable at the GST rate of 7%.
  - 7) Where the registrant has cost centres, divisions, business lines or other categories, the purchases must be segregated by such categories, to determine the eligibility for ITCs and the extent of consumption or use in the course of commercial activities.
  - 8) Procurement card reports are reviewed and authorized by the immediate supervisor of the employee who used the card, the card administrator or by an authorized senior employee of the registrant, other than the employee who used the card, to ensure compliance with the registrant's procurement card policy.
  - 9) The CRA has received written confirmation from the registrant's external auditor that their internal controls for procurement cards purchases are reliable.
  - 10) The registrant has provided, along with its request for exemption, electronic data showing purchases made with procurement cards for the year preceding the request, for a sample period. This sample must include complete data for four full months of transactions, one month of each quarter, consistently selected. All transactions for these periods must be included. The registrant understands that approval to claim ITCs, for purchases made with procurement cards using a ratio, could be denied or revoked if the person is not compliant with all the GST/HST provisions under Part IX of the Act. The CRA can also reassess at a later date if the ratios are found to be applied incorrectly or not updated for significant changes during the period.

- 11) The sample of purchases made with procurement cards for the period pre-established above, has been selected and verified by an external auditor or by a person at a senior level appointed by the registrant who is qualified to perform statistical sampling and is responsible for the sampling results. The sample has been selected by cost centres, divisions, business lines or other appropriate categories. Further, for each selected transaction in the sample, the registrant has obtained the supporting documentation necessary to satisfy the documentary requirements of subsection 169(4) of the Act.
- 12) From the sample selected, the registrant has established the eligible purchases ratio (EPR). The EPR represents the extent of the total taxable purchases before taxes, for which the registrant is entitled to ITCs, excluding non-qualifying transactions as per paragraph 3 above, to the total amount of purchases before taxes made by the registrant with procurement cards for the period selected. Subject to the above conditions, the eligible purchases ratio is calculated as follows: (see Annex A for example)

$$\text{EPR} = \frac{\text{Total eligible/qualifying purchases (before GST/HST and PST)}}{\text{Total purchases selected for sampling (before GST/HST and PST)}}$$

- 13) From the sample selected, the registrant has determined the taxable purchases' ratio (TPR), which is used to eliminate the Provincial Sales Taxes (PST) amount included in the total purchase amount on the card issuers' report. Where the registrant is exempt from paying PST, this will be examined and indicated in the report provided to the CRA and the registrant's TPR will be 1. The taxable purchases ratio will be calculated as follows: (see Annex A for example)

$$\text{TPR} = \frac{1 + \text{GST rate}}{1 + \text{GST rate} + \text{PST rate}}$$

*Or*

*in provinces where PST is charged on GST:*

$$\frac{1 + \text{GST rate}}{1 + \text{GST rate} + ((1 + \text{GST rate}) * \text{PST rate})}$$

Where purchases are made in many provinces that have different PST rates, purchases should be segregated by province, where possible. Otherwise, the CRA will accept a reasonable estimation of the average PST rate, where the registrant provides evidence satisfactory to the CRA based on statistical sampling.

- 14) The registrant has provided the CRA with the sampling results and the details of the calculation of the ratios. The CRA has verified the sampling results and the ratios prior to the registrant implementing this policy. If the CRA has been unable to verify the ratios calculated to within an acceptable range, the registrant will be asked to review its analysis and recalculate the ratio for review and subsequent approval.

- 15) The registrant has received written authorization from the CRA to use the GST/HST Audit Policy on Procurement Cards as well as confirmation of the effective date.
- 16) The eligible purchases' ratio and the taxable purchases' ratio should be used consistently for a period of five years. Exceptions to this rule will be dealt with on a case-by-case basis and will require the CRA's approval. The registrant will have to submit a new request to the CRA if they want to continue to use this policy after the exemption period has expired. Where a corporate or business change occurs that has an impact on the EPR or the TPR, new ratios will have to be determined. The registrant will have to notify the CRA and obtain approval prior to claiming ITCs, for purchases made using procurement card, based on the new ratios. The CRA can reassess if the ratios have not been updated for significant business changes, ie foreign contracts, change in use of procurement cards, etc. Approval to claim ITC's under this policy can also be revoked in these cases.
- 17) The registrant has not elected to use the Streamlined Accounting Quick Method (the "Quick Method") or the Simplified/Streamlined Input Tax Credit Method.
- 18) The registrant shall provide the CRA, upon request, with periodic reports that detail all supplies made by a specific vendor, by vendor code (or other equivalent code) or such other information that may be necessary to verify the particulars of the transactions and that the GST/HST was collected and remitted by the supplier.

Where all the above conditions are satisfied, the CRA will consider the following minimum information, obtained by the registrant from the financial institution issuing the procurement card, to constitute satisfactory supporting documentation at the time of claiming an input tax credit:

- Date of transaction
- Merchant name
- Place of supply (City and/or Province)
- Merchant category
- Transaction amount
- Cardholder (employee) name
- Procurement card number

The registrant will be entitled to claim ITCs at the rate of 7/107, or 15/115 for participating provinces, of the total amount of purchases (including taxes) appearing on the card issuers' report, to the extent of the ITC eligible purchases' ratio and the taxable purchases' ratio.

**Application for exemption from the ITC documentary requirements of subsection 169(4) of the Act:**

Persons wishing to use this policy should write to the Manager, Specialty Audit, Audit Directorate, Compliance Programs Branch, Canada Customs and Revenue Agency, 112 Kent Street, 8<sup>th</sup> floor, Place de Ville, Tower B, Ottawa, Ontario K1A 0L5.

The registrant must provide the following information with their request for exemption:

- Name of the registrant, Business Number, name and telephone number of the contact person;
- Description of the registrant's activities, specify any exempt activities of the registrant and indicate the extent of such activities;
- Written confirmation from the registrant's external auditor that their internal controls for procurement cards purchases are reliable;
- Description of the registrant's use of procurement cards, such as the number of procurements cards in use, the average amount of purchases made with procurements cards, and the type of purchases made with procurements cards;
- Electronic data showing purchases made with procurement cards for the year preceding the request, for a sample period, to be submitted in Microsoft EXCEL format;
- The sample must include complete data for four full months of transactions, one month of each quarter, consistently selected. All transactions for these periods must be included.

For more information regarding this policy, please contact the Manager, Specialty Audit, Audit Directorate, Compliance Programs Branch, Canada Customs and Revenue Agency, 112 Kent Street, 8<sup>th</sup> floor, Place de Ville, Tower B, Ottawa, Ontario K1A 0L5.

The CRA reserves the right to revise or revoke this policy at any time.

***Example***

Where the CRA is satisfied that all the conditions pursuant to the Audit Policy on Procurement Cards have been met, eligible registrants will be authorized to claim ITCs, for purchases made using procurement cards, based on an estimated amount of tax paid, established using ratios, which are determined by statistical sampling methodology.

The following example illustrates the determination of the ratios using data for the year preceding the request. It also shows the methodology for claiming ITCs in respect of purchases made using procurement cards for a subsequent claim period.

The registrant will select a statistically valid sample of purchases made with procurement cards, using the statistical sampling method above. Appropriate documentation in respect of purchases selected for sampling will be obtained that provides the information necessary to satisfy the documentary requirements under subsection 169(4) of the Act.

The following information would be obtained from the sampling results:

	<b>Gross purchase amount per supporting documentation</b>	<b>Actual GST per supporting documentation</b>	<b>Tax status</b>
<b>1</b>	100.00	7.00	Taxable at 7%
<b>2</b>	49.00	3.43	Taxable at 7%
<b>3</b>	225.00	0.00	Exempt
<b>4</b>	219.00	15.33	Taxable at 7%
<b>5</b>	25.00	1.75	Taxable at 7%
<b>6</b>	99.00	6.93	Taxable at 7%
<b>7</b>	299.00	20.93	Taxable at 7%
<b>8</b>	700.00	49.00	Taxable at 7%
<b>9</b>	145.00	10.15	Taxable at 7%
<b>10</b>	124.99	0.00	Zero-rated
<b>11</b>	<u>133.00</u>	9.31	Taxable at 7%
<b>Total sample</b>	<b>2,118.99</b>		



### ***Part I - Determination of the ratios***

- Eligible purchases' ratio (EPR):  $2,118.99 - 225.00 - 124.99 = \underline{1,769.00} =$   
**83.4831 %**  
2,118.99

Determination of the taxable purchases ratio where the Provincial Sales Tax (PST) is not charged on the GST and the average PST rate is 8% (estimated):

- Taxable purchases ratio (TPR):  $(1 + .07) / (.07 + .08 + 1) = \mathbf{1.07/1.15}$

Determination of the taxable purchases ratio for purchases made in Provinces where the PST is charged on the GST and the average PST rate is 6.5% (estimated):

- Taxable purchases ratio (TPR):  $(1 + .07) / [1 + .07 + (1.07 \times .065)] =$   
**1.07/1.13955**

- The taxable purchases ratio is **1** when purchases are taxable at the HST rate of 15% or where the registrant is exempt from paying PST.

### ***Part II - Application of the methodology***

Once the ratios have been determined and approved by the CRA, the registrant will be entitled to claim input tax credits at the rate of 7/107, or 15/115 for participating provinces, of the total amount of purchases (including taxes) appearing on the card issuers' report, to the extent of the ITC eligible purchases' ratio and the taxable purchases' ratio.

The eligible ITCs calculated in accordance with the GST/HST Audit Policy on Procurement Cards for a subsequent claim period would be determined as follows:

- **Total purchase amount appearing on the card issuers' report x EPR x TPR x 7/107 or 15/115 (as appropriate)**

**Annex B****Data**

The electronic file for data used to estimate *EPR/TPR* must contain the following information on each transaction (each data item should be recorded in a separate column on a spreadsheet with the appropriate format), **and related information to allow CRA to verify the ratios and any variances in the estimates.**

1. Transaction ID;
2. Transaction Date (ddmmyyyy);
3. Card number;
4. Vendor code (SIC Code);
5. SIC code;
6. Province where the transaction has been made;
7. Country where the transaction has been made;
8. Total transaction amount (including taxes paid);
9. Basic transaction amount (without taxes);
10. Tax exempted (Yes/No);
11. Transaction eligible for ITC (Yes/No);
12. GST amount estimated according to the Company practices (ratio that the Company apply in claiming ITC);
13. Rate used to estimate GST;
14. GST amount paid (actual amount);
15. PST amount paid (actual amount);
16. HST amount paid (actual amount);
17. ITC amount claimed (actual amount);
18. ITC amount should have been claimed;
19. ITC claim compliance (compliant; not-compliant);
20. Documentary requirements met (Yes/No/Acceptable).