



GST/HST Memoranda Series

28.2 Freight Transportation Services

January 1999

Notice of Change re 28.2, *Freight Transportation Services*, paragraphs 40.1 and 40.2, March 22, 2004

Overview	This section provides detailed information on the tax status of freight transportation services as they relate to the Goods and Services Tax (GST) and Harmonized Sales Tax (HST) provisions of the <i>Excise Tax Act</i> (the Act). The legislative reference for this section is Part VII of Schedule VI to the the Act unless otherwise indicated.
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Disclaimer

The information in this memorandum does not replace the law found in the *Excise Tax Act* and its Regulations. It is provided for your reference. As it may not completely address your particular operation, you may wish to refer to the Act or appropriate Regulation, or contact a Canada Revenue Agency (CRA) GST/HST Rulings Centre for more information. These centres are listed in GST/HST Memorandum 1.2, *Canada Revenue Agency GST/HST Rulings Centres*. If you wish to make a technical enquiry on the GST/HST by telephone, please call the toll-free number 1-800-959-8287.

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

Note

This section and section 28.3 *Passenger Transportation Service* of Chapter 28 supersede GST Memorandum 300-3-7, *Transportation Services*, dated May 4, 1992. The changes have been side-barred.

Note - HST

Reference in this publication is made to supplies taxable at 7% or 15% (the rate of the HST). The 15% HST applies to supplies made in Nova Scotia, New Brunswick and Newfoundland (the “participating provinces”).

Freight transportation services

1. International freight transportation services are zero-rated. Freight transportation services include postal and courier services.

Explanation of key transportation terms used in this publication

- Carrier**
ss 123(1)
2. “Carrier” means a person who supplies a freight transportation service within the meaning of freight transportation service assigned by subsection 1(1) of Part VII of Schedule VI.

28.2 Freight Transportation Services (continued)

- Consignee
3. “Consignee” means a person to whom a consignment is made. It is normally the person named in the bill of lading to whom or to whose order the bill promises delivery. In commercial use, consignee means a person to whom a consignment may be made, a person to whom goods are shipped for sale, or a person to whom a carrier may lawfully make delivery in accordance with the contract of carriage, or a person to whom goods are consigned, shipped or otherwise transmitted.
- Continuous freight movement
Sch. VI, Part VII, s 1
4. A “continuous freight movement” means the transportation of tangible personal property by one or more carriers to a destination specified by the shipper of the property, where all freight transportation services supplied by the carriers are supplied as a consequence of instructions given by the shipper of the property.
5. In practice, continuous freight movement generally refers to a situation where two or more carriers interline (Information on interlining is in paragraphs 36 to 42.) with each other to move goods to their destination although, technically, the term also includes a freight movement by one carrier. In addition, it includes cases where one carrier fully subcontracts a freight movement to another carrier; for example, where a trucking firm agrees to move a shipper's goods and subcontracts the move to an independent owner-operator. The term "continuous freight movement" is relevant for the tax treatment of interline settlements as well as for the zero-rating provision for the domestic portion of inbound international freight movements.
- Continuous outbound freight movement
Sch. VI, Part VII, s 1
6. The term “continuous outbound freight movement” is relevant to those instances where goods destined for export are shipped under two or more contracts of carriage for sequential parts of the journey and the first contract of carriage is for an entirely domestic move. A typical example is when an exporter contracts with a domestic rail or highway carrier to have goods shipped to a domestic port, at which point a separate bill of lading is issued to transport the goods overseas by ship.
- Sch. VI, Part VII, s 7
7. A domestic freight transportation service may be zero-rated if the service is part of a continuous outbound freight movement. To qualify as a continuous outbound freight movement, the goods being transported must not be further processed, transformed or altered in Canada after the shipper delivers the goods to the domestic carrier, except to the extent reasonably necessary for their transportation. For example, it may be necessary to freeze goods to ensure that they arrive at their destination in a usable condition, or to disassemble or pack items at a port to prevent in-transit damage to the goods. In each of these instances, the transformation or alteration of the goods is considered to be necessary to their transportation and, therefore, does not prevent the domestic portion (or leg) of this shipment from qualifying as part of a continuous outbound freight movement.
- Freight transportation service
Sch. VI, Part VII, s 1
8. “Freight transportation service” means a particular service of transporting tangible personal property. Postal and courier services are included in the definition of freight transportation service. In addition, where goods are transported into a reload centre to be unloaded and transferred onto another mode of conveyance, the reload service is considered to be a freight transportation service. Moreover, any other property or services supplied by the carrier that are part of or incidental to a freight transportation service are included in the definition of freight transportation service, whether or not there is a separate charge for the other property or services.

28.2 Freight Transportation Services (continued)

Destination Sch. VI, Part VII, s 1 and Sch. IX, Part VI, s 1	9. “Destination” is relevant to the place of supply rules for freight transportation services. In respect of a continuous freight movement of property, destination means a place specified by the shipper of the property where possession of the property is transferred to the person to whom the property is consigned or addressed by the shipper. For purposes of the place of supply rules in a participating province, destination of a freight transportation service means the place specified by the shipper (usually on the bill of lading) of the property where possession of the property is transferred to the person to whom the property is consigned or addressed by the shipper.
Origin Sch. VI, Part VII, s 1	10. “Origin”, in respect of a continuous freight movement, means the place where the first carrier engaged in the continuous freight movement takes possession of the property being transported.
Place outside Canada Sch. VI, Part VII, s 1	11. Sections 8 and 9 of Part VII of Schedule VI zero-rate certain freight transportation services for the shipment of goods from a place outside Canada. For purposes of those provisions, a place outside Canada includes a place in Canada if the goods being transported are in bond and have not been released from Canada Customs. For example, if goods enter Canada through the Port of Halifax and a separate rail bill of lading is issued for an overland movement to Montreal, the domestic movement by rail is considered to be a supply made outside Canada and is zero-rated if the goods are not released by Canada Customs until they reach Montreal.
Shipper Sch. VI, Part VII, s 1	12. A “shipper” of tangible personal property means the person who, in respect of a continuous freight movement or a continuous outbound freight movement, transfers possession of the property being shipped to a carrier at the origin of the freight movement and, for greater certainty, does not include a person who is a carrier of the property to which the freight movement relates.

Place of supply

General	13. The place of supply rules are important with respect to freight transportation services because where the supply is made can determine the tax status of the service. These rules can be divided into two parts: <ul style="list-style-type: none">• rules to determine whether a supply is made in Canada or outside Canada; and• rules to determine in which Canadian province a supply is made (i.e., participating versus non-participating province).
General rule - supply made in Canada para 142(1)(g)	14. Section 142 sets out general rules for determining whether a supply is considered to be made in or outside Canada. The GST/HST does not apply to supplies made outside Canada. Paragraph 142(1)(g) is a provision of general application that treats a service (e.g., a freight transportation service) as being a supply made in Canada if the service is, or is to be, performed in whole or in part in Canada.
General rule - supply made outside Canada para 142(2)(g)	15. A supply is made outside Canada, and is therefore outside the scope of the GST/HST if, in the case of a supply of a service (e.g., a freight transportation service) the service is, or is to be, performed wholly outside Canada.

28.2 Freight Transportation Services (continued)

- Supply in a province
s 144.1
16. A supply is deemed to be made in a particular province if it is made in Canada and is, under the rules set out in Schedule IX, made in that province. Therefore, a supply that is made in Canada and, according to the rules in Schedule IX, made in a participating province, is deemed to be made in a participating province. Further, a supply made in Canada that is not made in a participating province is deemed to be made in a non-participating province.
- Supply in a participating province
Sch. IX, Part VI, s 5
17. Section 5 of Part VI of Schedule IX sets out the place of supply rules for a supply of freight transportation services. A supply of a freight transportation service other than a postal service is considered to be made in a participating province if the destination of the freight transportation service is in a participating province.
- Meaning of destination
18. The term "destination" is relevant to the place of supply rules for freight transportation services. Destination means the place specified by the shipper (usually on the bill of lading) where possession of the property is to be transferred to the person to whom the property is consigned or addressed by the shipper.
- Separate supplies of freight services
s 136.3
19. Situations arise where a supply of a freight transportation service includes the provision of the service of transporting tangible personal property to a destination in a participating province and other property to a destination in a non-participating province. In such a case, the provision of the service of transporting the property to a destination in a participating province and the provision of the service of transporting the property to a destination in a non-participating province are each deemed to be separate services made for separate consideration equal to the portion of the total consideration for the supply that is reasonably attributable to the respective parts of the entire freight transportation service. The service of transporting the property to a destination in a participating province would be taxable at 15% while the service of transporting the property to a destination in a non-participating province would be taxable at 7%.

Tax status

- General
20. A supply of a freight transportation service made in Canada can be zero-rated, or taxable at 7% or 15%. The following paragraphs explain how to determine the tax status of a supply of a freight transportation service.

Domestic freight transportation service

- General
21. A taxable supply (other than a zero-rated supply) of a freight transportation service is taxable at 7% or 15%, depending on whether the supply is made in a non-participating province or a participating province.

Postage

- Postage
Sch. IX, Part VII, s 2
22. A supply authorized by the Canada Post Corporation (Canada Post) of a postage stamp, postage-paid card, package or similar item (other than an item bearing a "business reply" indicia) is considered to be made in a participating province and, therefore, taxable at 15%, if the supplier delivers the stamp or item to the recipient of the supply in that province, unless:

28.2 Freight Transportation Services (continued)

(a) the supply of the mail delivery service is made by way of a bill of lading; or

(b) consideration for the supply of the service is \$5 or more, and the address to which the mail is sent is not in a participating province.

In the circumstances outlined in (a) and (b) above, the general freight transportation rules in section 5 of Part VI of Schedule IX are used to determine the place of supply of the mail delivery service.

Meaning of postage stamp
Sch. IX, Part VII, s 1

23. "Postage" stamp means a stamp authorized by Canada Post for use as evidence of the payment of postage, but does not include a postage meter impression, a permit imprint or any "business reply" indicia or item bearing that indicia.

Meaning of permit imprint
Sch. IX, Part VII, s 1

24. "Permit imprint" means an indicia used as evidence of postage payment exclusively by a person authorized under an agreement between Canada Post and the person. It does not include a postage meter impression, or any "business reply" indicia or item bearing that indicia.

Sch. IX, Part VII, s 3

25. If payment for a mail delivery service supplied by Canada Post is evidenced by a postage meter impression, the supply of the service is considered to be made in a participating province and taxable at 15% if the ordinary location of the meter, at the time the recipient of the supply pays an amount to Canada Post for the postage, is in a participating province (unless the supply is made pursuant to a bill of lading).

Sch. IX, Part VII, s 4

26. If payment for a mail delivery service supplied by Canada Post is evidenced by a permit imprint (other than a bill of lading), the supply of the service is considered to be made in the province in which the recipient deposits the mail with Canada Post, in accordance with the agreement between the recipient and Canada Post that authorizes the use of the permit imprint. Therefore, if the recipient deposits the mail in a participating province, the supply of the service is taxable at 15%. If the mail is deposited in a non-participating province, the supply of the service is taxable at 7%.

Outbound international freight

In Canada to outside Canada
Sch. VI, Part VII, s 6

27. The supply of a freight transportation service in respect of tangible personal property from a place in Canada to a place outside Canada is zero-rated where the value of the consideration for the supply is \$5 or more.

Within Canada
Sch. VI, Part VII, s 7

28. The supply made by a carrier of a freight transportation service of tangible personal property from a place in Canada to another place in Canada is zero-rated where:

(a) the shipper provides the carrier with a declaration in prescribed form (see Appendix - Shipper's Declaration) that the property is being shipped for export and that the carrier's freight transportation service is part of a continuous outbound freight movement in respect of the property;

(b) the property is exported and the freight transportation service is part of a continuous outbound freight movement in respect of the property; and

(c) the value of the consideration for the supply is \$5 or more.

28.2 Freight Transportation Services (continued)

Example Goods are transported in Canada by truck or rail to a port under one bill of lading, at which point a second bill of lading is issued to transport the goods overseas by ship. As long as the domestic part of the freight movement is part of a continuous outbound freight transportation movement and the shipper provides the carrier with a declaration on the relevant freight documents to this effect, the supply of the domestic service is zero-rated.

Inbound international freight

Outside Canada to a place in Canada
Sch. VI, Part VII, s 8

29. The supply of a freight transportation service in respect of tangible personal property from a place outside Canada to a place in Canada is zero-rated. A place outside Canada includes a place in Canada if, at the time of shipment, the goods being transported are held in bond and have not been released by Canada Customs.

Outside Canada to outside Canada
Sch. VI, Part VII, s 9

30. The supply of a freight transportation service of tangible personal property from a place outside Canada to another place outside Canada is zero-rated. Examples are fully in-bond freight transportation services as well as in-transit moves through Canada.

Within Canada
Sch. VI, Part VII, s 10

31. The supply of a freight transportation service from a place in Canada to another place in Canada is zero-rated if:

- (a) it is part of a continuous freight movement originating outside Canada to a destination in Canada; and
- (b) the supplier of the service maintains documentary evidence satisfactory to the Minister that the service is part of a continuous freight movement originating outside Canada to a destination in Canada as specified by the shipper.

Example

An air cargo shipment of goods from England destined for Red Deer, Alberta, is cleared through Canada Customs in Calgary, at which point a highway carrier is engaged under a separate bill of lading to deliver the goods to the consignee in Red Deer. As long as the highway carrier has documentary evidence satisfactory to the Minister that the land movement is part of a continuous freight movement from a place outside Canada, the supply of the domestic highway freight transportation service is zero-rated. Satisfactory evidence includes, for example, a copy of the air waybill showing the origin and destination of the shipment. If the shipment in this example was part of a consolidated shipment from England, the highway carrier should have a copy of the housebill that accompanied the master air waybill. The housebill provides details of the complete movement of the individual shipments from origin to destination.

Reload centres

Meaning of reload centre

32. A reload centre is used as a cross dock operation where goods are transported to the facility by rail or by truck. The goods are unloaded and, if not immediately reloaded onto trucks for export, are stored for a short period of time, usually 30 days or less. The goods are not subject to any processing and are not altered in any way while they are in the facility. Services supplied at reload centres are considered to be freight transportation services.

28.2 Freight Transportation Services (continued)

Reload centre -
outbound freight
movement
Sch. VI, Part VII, s 7

33. Where the reload service is part of a continuous international outbound freight movement, the charge for the service is zero-rated.

Reload centres -
inbound freight
movement
Sch. VI, part VII, s 10

34. Where goods are part of a continuous international inbound freight movement, the reload services are also zero-rated.

Reload centres -
interline settlement
Sch. VI, Part VII, s 11

35. When a carrier is billed for the reload services performed at the reload centre, the billings are zero-rated as part of an interline settlement.

Example

The ABC company operates a lumber reload centre. Lumber is transported to the facility by rail and by truck where it is unloaded and stored for no more than 30 days before finally being shipped to the United States. The lumber is not subject to any processing such as staining or cutting, and is not altered in any way while at the reload centre. In this example, the services provided at the reload centre are zero-rated as part of a continuous outbound freight movement.

Interline freight settlements between freight carriers

Sch. VI, Part VII, s 11,
ss 1(2)

36. Several carriers may participate in the supply of a freight transportation service in the course of a continuous freight movement from the shipper's premises to the customer's premises. This process, called interlining, receives special treatment under the GST/HST. Subsection 1(2) provides a set of rules designed to treat interline freight settlements between carriers as being payments for freight transportation services supplied to each other. It deems such payments to be in respect of supplies between carriers rather than supplies made through an agent by the shipper or consignee of the goods. The effect of this deeming provision is to enable such supplies to be zero-rated under section 11 of Part VII of Schedule VI without having first to determine the actual contractual relationships between carriers.

37. Further, section 11 zero-rates interline settlements between freight carriers whether the settlements are in respect of domestic or international freight movements.

38. Under the interline rules, only the carrier who settles a freight bill directly with the shipper or consignee is required to charge and collect the 7% GST or 15% HST on the bill. Any subsequent disbursements to interlining carriers who participate in the freight movement would be zero-rated.

28.2 Freight Transportation Services (continued)

Couriers	<p>39. The rules respecting interline settlements also apply to courier services. For example, a freight company may contract with a courier for the latter to pick up or deliver freight to the freight company. The courier bills the freight company for the service and, in turn, the freight company bills either the shipper or the consignee. In this example, the courier is not required to charge the 7% GST or 15% HST on its service rendered to the freight company because the service qualifies as an interline service as described above. Alternatively, a courier company may contract directly with shippers to deliver materials. In this scenario, the courier company, which issues an invoice to its customer (the shipper), is responsible for charging and collecting the 7% GST or 15% HST. Persons who are on contract with the courier company to make deliveries and who do not invoice the customer directly are entitled to zero-rate their billing to the courier company as part of an interline freight settlement.</p>
Tow truck operators	<p>40. The service of towing a vehicle from the site of an accident or breakdown constitutes a freight transportation service for purposes of Part VII of Schedule VI. As a result, the rules respecting interline settlements for sub-contracted towing services and the towing of such vehicles in or out of Canada would apply.</p>
Example	<p>XYZ is a GST/HST-registered tow truck company operating in Alberta that is in the business of providing towing and related roadside services (e.g., car boosting, winching, unlocking doors). It has a number of self-employed contractors (operators) operating tow trucks for it. These operators are GST/HST registrants. Customers requiring XYZ's services contact XYZ which, in turn, dispatches the operators to the locations. XYZ then invoices the customers for the towing and related roadside services. The operators invoice XYZ for the towing and related roadside services provided to the customers on behalf of XYZ.</p> <p>In this example, both XYZ and the operators are involved in transporting tangible personal property. The towing services provided by XYZ to its customers and by the operators to XYZ qualify as freight transportation services under subsection 1(1) of Part VII of Schedule VI. In addition, XYZ, as the invoicing carrier, is responsible for charging and collecting the 7% GST from its customers. Therefore, since the operators are providing freight transportation services on behalf of XYZ and XYZ remains responsible for invoicing the customer, the services provided by the operators to XYZ are zero-rated under the provisions of subsection 1(2) and section 11 of Part VII of Schedule VI.</p> <p>However, roadside services (e.g., car boosting, winching, unlocking doors) provided by XYZ to its customers and by the operators to XYZ do not qualify as freight transportation services since these services do not involve the transportation of tangible personal property. As a result, these services are taxable at 7%.</p>
Gravel pit owners and dump truck operators	<p>40.1 It is common for a contractor who has been engaged to build a road to own a gravel pit and to supply the gravel needed to build the road from its pit. Given the volume of the gravel required to build the road, the contractor would often subcontract with dump truck operators to transport the gravel to the road construction site.</p>

28.2 Freight Transportation Services (continued)

40.2 The interline provisions do not apply in the case described above. In these circumstances, the gravel pit owner (contractor) would be considered to be the shipper of the goods not the carrier. For the interline provisions to apply, there must be at least two carriers. In this case, the dump truck operator is the only carrier. As such, the zero-rating provisions of section 11 of Part VII of Schedule VI do not apply, and therefore the supply is taxable at 7% or 15%.

Chargebacks
Sch. VI, Part VII, s 11,
ss 1(2)

41. Interline provisions relate only to freight transportation services and not to supplies for which chargebacks are made because:

- the supplies for which chargebacks are made are not freight transportation services; and
- the zero-rating applies only to supplies made in one direction (i.e., supplies of freight transportation services made to, or in the direction of, the invoicing carrier).

42. A chargeback is consideration for supplies other than a freight transportation service. The chargeback may be related to a freight transportation service in that it is consideration for inputs into the freight transportation service, but it is not consideration for the freight transportation service itself. The interline provisions do not apply to chargebacks because the definition of freight transportation service does not include chargebacks.

Example

ABC is a GST/HST registrant in the business of transporting tangible personal property, and subcontracts freight transportation services to XXX Company Limited. ABC is considered the invoicing carrier and charges the 7% GST or the 15% HST to the shipper. XXX Company Limited is in the business of transporting tangible personal property and is contracted by ABC to move tangible personal property. The owners/operators are the truck drivers who are subcontracted by XXX Company Limited to physically move the tangible personal property. In this example, under section 11 of Part VII of Schedule VI, ABC qualifies as the invoicing carrier and any charges for freight transportation services to them from XXX Company Limited are not subject to the 7% GST or 15% HST. Charges to the shipper of the tangible personal property by ABC are taxable at 7% or 15%. Charges by XXX Company Limited to ABC for fuel, truck repairs and maintenance, and permit fees are not considered interline services but rather chargebacks and the 7% GST or 15% HST applies.

International freight forwarders

Sch. VI, Part VII, s 12

43. Agents' services provided to a non-registered non-resident person are zero-rated to the extent that the services are in respect of a supply to that person of a freight transportation service described in paragraphs 26 to 30. For example, freight forwarders acting as agents will zero-rate their service fee when arranging an international freight movement on behalf of a non-registered non-resident shipper.

44. To qualify as a carrier an international freight forwarder must present itself as a carrier and assume liability as a carrier.

28.2 Freight Transportation Services (continued)

Sufferance warehouse services

- Sch. VI, Part VII, s 13 45. Sufferance warehouse fees are zero-rated where the sufferance warehouse service is supplied in conjunction with the transportation of goods from an origin outside Canada to a destination in Canada. A sufferance warehouse must be licensed by the Department for the purpose of Canada Customs inspection and clearance.
46. For GST/HST purposes, sufferance warehouse services, including the handling and storage services provided by a sufferance warehouse operator for international goods, are treated as freight transportation services. However, this provision does not include office rents, bay rental fees charged to tenants or fees for the preparation of entry documents (other than remanifesting fees incidental to the handling and storage of goods). These services would be taxable at 7% or 15% depending on whether the supply of the sufferance warehouse services is made in a non-participating or participating province.

International ferry services

- Sch. VI, Part VII, s 14 47. A service of ferrying by watercraft passengers or property to or from a place outside Canada where the principal purpose of the ferrying is to transport motor vehicles and passengers between parts of a road or highway system that are separated by a stretch of water is zero-rated.
- Domestic ferry services
Sch. V., Part VIII, s 1 48. For information on domestic ferry services, refer to Section 28.1, *Ferry, Road and Bridge Tolls*.

Services incidental to a freight transportation service

- Freight transportation
service
Sch. VI, Part VII, s 1 49. The definition of freight transportation service includes a property or service which is part of, or incidental to, a freight transportation service whether or not a separately identifiable charge is made for the incidental property or service, provided that the property or service is supplied by the same person who supplies the transportation service. As a result, a carrier that provides services such as warehousing, packing and loading in conjunction with a freight transportation service is able to treat the incidental services in the same manner as the freight transportation service provided; that is the incidental property or services are taxable at 7% or 15% or zero-rated depending on the tax status of the freight service.
- Examples of incidental
services 50. Where additional services are provided by a carrier and a fee is charged, these services are taxable at 7% or 15% where they are part of or incidental to the supply of a taxable domestic freight transportation service. Conversely, if they are related to a zero-rated freight transportation service, these services are also zero-rated. Examples of possible incidental services are:
- storage and warehousing fees;
 - loading and unloading fees;
 - excess weight charges;

28.2 Freight Transportation Services (continued)

- refrigeration charges;
- packing fees.

51. Where these service charges cannot be considered to be part of or incidental to a specific freight transportation service, or are billed by someone other than the carrier, they are treated like other services. That is, those services performed in Canada are taxable at 7% or 15%, and those services deemed to be made in Canada and relating to the export of goods may be zero-rated pursuant to Part V of Schedule VI.

“Demurrage fees

Rolling stock penalties
and demurrage

s 162.1

52. Any demurrage fees and any penalty paid by one railway corporation to another railway corporation for delay in returning railway rolling stock are deemed not to be consideration for a supply. They are therefore not taxable. Demurrage fees are amounts that a shipper pays a carrier for the detention of a ship, freight car or other cargo conveyance during loading or unloading beyond the scheduled time of departure.”

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

APPENDIX

SHIPPER'S DECLARATION

Shipper to put an X in the appropriate box:

Declaration by the Shipper under Schedule VI, Part VII, paragraph 7(a), *Excise Tax Act*:

YES

The property is being shipped for export and the freight transportation service to be supplied by the carrier is part of a continuous outbound freight movement (within the meaning of Part VII of Schedule VI to the *Excise Tax Act*) in respect of the property.

NO

This declaration may appear on the carrier's bill of lading or the shipper may prepare the declaration as a separate document to be provided to the carrier.