Canada Revenue Agency
Agence du revenu du Canada

GST/HST Information for Non-Profit Organizations

RC4081(E) Rev. 06

Canada

Before you start

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.

Is this guide for you?

This guide explains how the goods and services tax/harmonized sales tax (GST/HST) applies to non-profit organizations. It explains registration requirements, exemptions, rebates, and simplified methods of accounting that may apply to your organization.

If you are registered for GST/HST, see our guide RC4022, *General Information for GST/HST Registrants*. It has basic information on charging, collecting, and remitting GST/HST.

How to contact us

If you need more information about GST/HST, visit our Web site at **www.cra.gc.ca** or call our Business Enquiries line 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**.

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.

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 their publication called *General Information Concerning the QST and the GST/HST.*

Teletypewriter users

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

Direct deposit

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

Representatives

You can authorize a representative, such as your accountant, to get information about your GST/HST matters. However, we will give information to your representative only after we are satisfied that you have authorized us in writing to do so.

To authorize a representative, complete and send us Form RC59, *Business Consent Form*, clearly indicating that you are authorizing the representative to contact us regarding your GST/HST account.

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 organismes à but non lucratif*.

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Terms we use in this guide

Basic tax content of a property generally means the amount of GST/HST payable on the acquisition of the property and on any improvements to the property, less any amounts that would be 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 at that time and the value at last acquisition (including any improvements).

Commercial activity means any business, or adventure or concern in the nature of trade carried on by a person, but does not include the making of exempt supplies. Commercial activity also 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, personal trust, or partnership where all the members are individuals. A commercial activity includes the supply of real property by any person, other than an exempt supply, whether or not there is a reasonable expectation of profit, and anything done in the course of making the supply or in connection with the making of the supply.

Exempt supply refers to goods and services that are not subject to GST/HST. GST/HST registrants cannot claim input tax credits to recover the GST/HST they pay or owe on expenses related to such supplies. However, as a non-profit organization, you may be eligible to claim a public service body rebate for such expenses.

Input tax credit (ITC) is a credit that 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 use, consumption, or supply in their commercial activities.

Non-profit organization means a person (other than an individual, estate, trust, charity, public institution, municipality, or government) that meets the following conditions:

- It is organized and operated solely for non-profit purposes.
- It does not distribute or make available any of its income for the personal benefit of any proprietor, member, or shareholder, unless the proprietor, member, or shareholder is a club, a society, or an association which has, as its primary purpose and function, the promotion of amateur athletics in Canada.

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

Property means any property, whether real or personal, movable or immovable, tangible or intangible, corporeal or incorporeal, and includes a right or interest of any kind, a share and a chose in action, but does not include money.

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

Qualifying non-profit organization means a non-profit organization that receives at least 40% of its total revenue from government funding during the fiscal year.

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

Small supplier refers to a person whose worldwide taxable supplies were equal to or less than $30,000 ($50,000 for public service bodies) in a calendar quarter and over the last four consecutive calendar quarters. For more information on how to calculate the small supplier threshold, see the section "Small supplier" on page 6.

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

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

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

What is GST/HST?

GST is a tax 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.

Proposed changes to the GST/HST rates came into effect July 1, 2006. This proposed change of law was current at the time of printing. Before July 2006, GST was 7% and HST was 15% (7% federal part and 8% provincial part). On or after July 1, 2006, GST is 6% and HST is 14% (6% federal part and 8% 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 of goods and services they make in the rest of Canada (other than zero-rated supplies). For more information on HST, see our guide RC4022, *General Information for GST/HST Registrants*.

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

If you are involved in commercial activities in Canada, you may have to register for GST/HST. If you are a registrant, you have to collect GST/HST from your customers and remit it to us. You can claim input tax credits (ITCs) to recover the GST/HST you pay or owe on purchases and operating expenses you use, consume, or supply in your commercial activities. For example, if you buy taxable goods to resell in your store, you can recover the GST/HST you paid on those goods by claiming an ITC. You cannot claim an ITC to recover the GST/HST you paid or owe on purchases related to supplies of exempt goods and services, or those for personal use.

If you are a GST/HST registrant, you have to send us a GST/HST return at regular intervals. When you complete your return, deduct your ITCs from the GST/HST you charged or collected from your customers. This includes the GST/HST you charged on all goods and services during a reporting period, even if you have not collected the tax. If the GST/HST you charged or collected from your customers is **more** than your ITCs, send us the difference. If it is **less**, claim a refund. The difference between what you charged or collected from your customers and what you paid or owe on your business purchases is your **net tax**. If you qualify to claim a rebate (such as the public service bodies' rebate or the rebate on printed books), deduct that amount from your net tax. For more information on rebates, see "Public service bodies' rebate" on page 14.

Types of goods and services

For GST/HST purposes, there are three types of goods and services:

- goods and services taxable at 6% or 14% (before July 2006, 7% or 15%);
- goods and services taxable at 0% (zero-rated); and
- exempt goods and services.

Goods and services taxable at 6% or 14%

Most goods and services supplied in Canada are subject to GST/HST at the rate of 6% or 14%. As a registrant, when you supply these goods and services, you usually have to charge GST/HST to your customers. You can claim ITCs for the GST/HST you pay or owe on purchases for use in your commercial activities. Examples of goods and services taxable at 6% or 14% include the following:

- registration fees for conferences, educational seminars, and trade shows;
- theatre subscriptions;
- books and subscriptions to magazines and newsletters;
- mailing list sales;
- advertising services;
- restaurant meals;
- banquet facilities; and
- club memberships, where the main purpose of the club is to provide recreational, dining, or sporting facilities to its members.

Goods and services taxable at 0% (zero-rated)

A limited number of goods and services are taxable at the rate of 0%. They are called **zero-rated.** As a registrant, when you supply zero-rated goods and services, you do not charge GST/HST to your customers, but you can claim ITCs for the GST/HST you paid or owe on purchases you made for use in your commercial activities. Examples of zero-rated goods and services include the following:

- prescription drugs and drug-dispensing fees;
- certain medical devices such as eyeglasses, canes, and wheelchairs;
- basic groceries such as fruits, vegetables, meat, and flour;
- most agricultural and fishery products; and
- exports (most goods and services taxable at 6% or 14% in Canada are zero-rated when exported).

Exempt goods and services

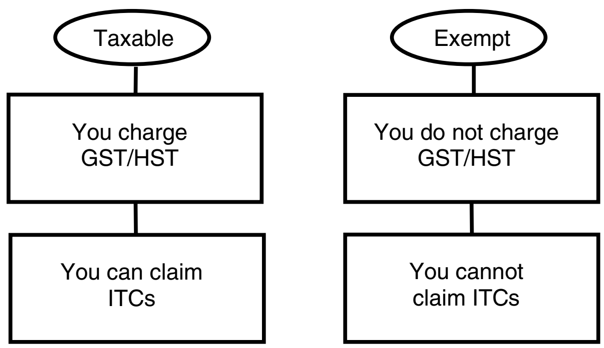
Some goods and services are not subject to GST/HST and have been designated as **exempt**. You do not charge GST/HST when you supply exempt goods and services, and you cannot claim an ITC for the GST/HST you pay or owe on purchases that relate to the supplies of such goods and services. However, as explained on page 14, certain qualifying non-profit organizations can claim a rebate for part of the GST/HST paid on expenses for which they cannot claim ITCs. In addition, you cannot register for GST/HST if you supply **only** exempt goods and services. Examples of exempt goods and services include the following:

- most educational services, and music lessons;
- most health, medical, and dental services performed by licensed physicians or dentists for medical reasons;
- most services provided by financial institutions such as providing loans or mortgages;
- child-care services (day-care services for less than 24 hours per day) provided primarily to children 14 years of age and younger;
- long-term residential accommodation (periods of at least one month) and residential condominium fees;
- residential accommodation if the charge is not more than $20 per day of occupancy; and

- certain goods and services provided by non-profit organizations, governments, and other public service bodies (exemptions regarding non-profit organizations are explained in the section “Exemptions for non-profit organizations” on page 7).

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

Taxable and exempt goods and services



Should you register?

You have to register for GST/HST if you provide taxable supplies in Canada and you are not a small supplier. 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 to provide these taxable goods and services. You do not have to register if your only commercial activity is the sale of real property otherwise than in the course of a business or you are a non-resident person who does not carry on any business in Canada.

If you are a small supplier and decide not to register for GST/HST, you do not charge GST/HST to your customers and you cannot claim ITCs to recover the tax you pay or owe on your purchases and operating expenses.

Small supplier

Your non-profit organization is a small supplier in a particular calendar quarter and in the first month immediately following the particular calendar quarter if your worldwide revenues from taxable supplies are $50,000 or less in the previous four consecutive calendar quarters.

Note
If, during any one calendar quarter, your total worldwide revenues from taxable supplies are more than $50,000, you will immediately cease to be a small supplier and will have to register for GST/HST.

This amount includes zero-rated supplies but does not include sales of capital property, supplies of financial services, and certain payments for goodwill. You also have to include all your associates’ revenues when you calculate your taxable supplies.

Voluntary registration

If you are a small supplier who is engaged in a commercial activity in Canada, you can choose to register voluntarily. If you choose to register voluntarily, you have to charge and remit GST/HST on your taxable supplies of goods and services, and you can claim ITCs to recover the GST/HST you pay or owe on purchases and operating expenses used in your commercial activities. You have to remain registered for at least one year before you can request to cancel your registration.

Date of registration

The effective date of your GST/HST registration depends on when you exceed the small supplier threshold amount. If you exceed the threshold amount in one calendar quarter, you are considered a registrant and must collect GST/HST on the supply that made you exceed the threshold amount. Your effective date of registration would then be the day the supply was made in which you exceeded the threshold amount. You will have 29 days from this day to apply for registration. However, if you do not exceed the threshold amount in one calendar quarter, but you exceed it over four consecutive calendar quarters, you are considered to be a small supplier for those four calendar quarters and a month following those quarters. Your effective date of registration would be the day the first supply was made after you cease being a small supplier. You will have 29 days from this day to register for GST/HST.

Multibranch non-profit organizations

Generally, if your non-profit organization is incorporated, you have to register as a single entity. However, if your non-profit organization is unincorporated, your branches or divisions may have to register separately if they are independent entities.

Incorporated non-profit organizations

If your non-profit organization is incorporated, you have to register for GST/HST as a single entity. Revenues from all branches and divisions have to be considered to determine if you have to register. You are also responsible for charging GST/HST on all taxable supplies made by them. **Branches or divisions of an incorporated non-profit organization cannot register separately**. GST/HST does not apply to supplies of goods and services between branches and divisions that are part of one corporation.

However, if your incorporated non-profit organization has branches and divisions, you may apply to have each branch or division designated as a **small supplier** division. A branch or division qualifies as a small supplier division under the following conditions:

- its worldwide revenues from taxable supplies are $50,000 or less in the previous four consecutive calendar quarters and in any particular calendar quarter;

- it is separately identifiable by either its location or the nature of its activities;
- separate records, books of account, and accounting systems are kept for it; and
- you have not revoked an earlier designation of the branch or division in the previous 365-day period.

When a branch or division is designated as a small supplier division, you do not collect GST/HST from taxable supplies made by the branch or division, and you cannot claim ITCs for the GST/HST paid or payable on purchases made by the branch or division.

If a branch or division no longer qualifies as a small supplier, you have to start collecting GST/HST on its supplies. If you are not registered for GST/HST, you have to do so. In addition, you will have to collect GST/HST on all supplies made by the branches or divisions that are not designated as small supplier divisions.

To apply for this designation, file Form GST31, *Application by a Public Service Body to Have Branches or Divisions Designated as Eligible Small Supplier Divisions*.

Unincorporated non-profit organizations

If your non-profit organization is not incorporated and it has several branches or divisions, we may consider them to be separate entities for GST/HST purposes. Each branch or division that is considered a separate entity has to register separately if it is not a small supplier.

To determine if a branch or division is a separate entity that should register separately, consider the following factors:

- **Legal basis**: Are the constitution and by-laws of the branch or division different from those of the parent body? Does the constitution define the activities the branch or division carries out? Can it sue or be sued? Can it hold property or contract in its own name? Is it liable for its debts? Does it raise its revenues instead of receiving funding from the parent body?
- **Management structure**: Do the parent body and its branches or divisions have different managers or directors? Can the branch or division make financial and operational decisions without the approval of the parent body? Does it have separate accounting systems and a different fiscal year-end from the parent body?

If each branch or division of an unincorporated organization registers separately, GST/HST applies to taxable supplies between them.

Grouping provisions

To avoid having each club or association that is a member of a larger organization register individually, two unincorporated organizations can apply to have one of the two organizations considered to be a branch of the other. The two organizations can apply using Form GST32, *Application to Deem One Unincorporated Organization to be a Branch of Another Unincorporated Organization*. If the application is approved, we then consider the two organizations to be one entity and one registrant for GST/HST purposes. No GST/HST will apply to transfers of goods and services between the member organization and the main organization.

Exemptions for non-profit organizations

GST/HST applies to most goods and services that non-profit organizations supply. However, taxable supplies may become **exempt** when they are sold under specific conditions. This section explains the exemptions that apply to non-profit organizations.

Admission to a place of amusement

An admission to a place of amusement is exempt if the **maximum amount** charged to your customer is $1 or less. For example, if you charge adults a $5 admission and children a $0.50 admission, both admissions (for adults and for children) are taxable.

Place of amusement means any place presenting any type of amusement or recreation such as a film, slide show, artistic presentation, fair, circus, race, or athletic contest. It also includes a museum, historical site, wildlife park, zoo, and a place where bets are taken.

Admission to athletic events

Ticket sales to a performance or an athletic or competitive event are exempt if 90% or more of the performers, athletes, or competitors are not paid directly or indirectly for their participation. Government and municipal grants, and reasonable amounts as gifts, prizes, or compensation for travel or other incidental expenses are not considered remuneration. In addition, you cannot advertise the performance or event as featuring paid professional participants. This exemption does not apply to events where professional competitors compete for cash prizes such as professional golf tournaments.

Free supplies

Supplies of goods and services are exempt when all or substantially all (90% or more) are provided free of charge. This exemption does not apply to supplies of blood or blood derivatives that are zero-rated.

Fund-raising activities

Sales of goods (except alcoholic beverages and tobacco products) are exempt when all the following conditions are met:

- you are not in the business of selling those goods;
- all the salespersons are volunteers;
- the sale price of each item is $5 or less; and
- the goods are not sold at an event where similar goods are sold by persons in the business of selling such goods.

Example
To raise funds for their activities, players of a minor hockey league organization sell chocolate bars door-to-door for $2. This is an exempt fund-raising activity.

Gambling activities

Admission fees

Admissions to gambling events are exempt if you meet both of the following conditions:

- 90% or more of the administrative functions and taking of bets are carried out by volunteers; and
- for a bingo or casino event, the games are not held in a commercial hall or any other place used primarily for gambling activities (including a temporary structure such as a bingo tent put up on a fair ground).

Right to play

No GST/HST applies to revenues you receive from sales of lottery, break-open, and raffle tickets. However, lottery tickets you sell for a provincial or interprovincial lottery corporation are taxable. GST/HST is included in the price of these lottery tickets. Lottery corporations will tell you how to treat the proceeds from these lottery tickets.

If you operate your own bingo games and casino nights, you do not charge GST/HST on the sale of bingo cards or on bets taken during the event. You are the operator if you have the provincial licence to run the event.

However, if a commercial bingo hall runs the event for you, the admission fee is taxable.

Example
You have a licence to operate a bingo in the basement of a church to raise funds for your activities. You sell bingo cards and charge an admission fee. The bingo is run by volunteers. The admission fee is exempt since the event is not run in a place used primarily for gambling activities. The sale of the bingo cards is also exempt since you have the licence to operate the event.

Goods and services sold for direct cost

Some goods and services taxable under usual circumstances may become exempt when you sell them for direct cost.

The direct-cost exemption applies to sales of goods (other than capital property) and services that are bought for resale. Direct cost includes the following amounts:

- the amount you paid when you bought the good or service;
- the amount you paid for an article or material (other than capital property) directly used to manufacture, produce, process, or package the goods; and
- GST/HST, Quebec sales tax (QST), and non-recoverable provincial taxes, duties, and fees you paid when you bought the goods or services.

Direct cost does not include administrative or overhead expenses, employees' salaries, or the cost of services to produce the property that you incur to provide these goods or services.

If you want to recover only your direct cost, you can choose to make your sales either taxable or exempt.

The sale of goods and services is exempt if the amount you charge is equal to or less than your direct cost and you do not charge GST/HST to your customers. For example, you buy a T-shirt for $10 plus $0.60 GST. Your direct cost is $10.60. The sale of the T-shirt is exempt if you sell it for $10.60 or less and you do not charge GST to your customer.

The sale of goods and services is also exempt in cases where you charged GST/HST to your customers and the amount charged for the goods and services is less than the direct cost (not including GST/HST and QST, when the person is a QST registrant). For example, you buy a T-shirt for $10 plus $0.60 GST. The sale of this T-shirt is exempt if you sell it for **less** than $10, **even if you charge GST to your customer**. This tax would have been collected in error.

The sale of goods and services would be taxable if you charge GST/HST to your customer and the amount you charge is equal to or more than your direct cost (not including GST/HST and QST). For example, you buy a T-shirt for $10 plus $0.60 GST and sell it to your customer for $10 plus $0.60 GST.

Memberships

Memberships sold by non-profit organizations can be exempt or taxable depending on the type of benefits the members are entitled to. The following benefits are permitted when determining whether memberships sold by non-profit organizations are exempt:

- an indirect benefit that is intended to accrue to all members collectively;
- the right to receive services in the nature of investigating, conciliating, or settling complaints or disputes involving members;
- the right to vote or participate in meetings;
- the right to receive or acquire goods and services for an additional fee equal to the fair market value;
- the right to receive a discount for goods or services sold by the organization when the total value of all the discounts is insignificant (less than 30%) in relation to the membership fee. For example, a $100 membership fee provides members with a $5 discount for 10 admissions to the theatre. This membership would be taxable since the total value of the discounts is significant (30% or more) in relation to the membership fee whether or not the discounts are used; or

- the right to receive periodic newsletters, reports, or other publications if:
  - the value of the newsletters, reports, and publications is insignificant (less than 30%) in relation to the membership fee; or
  - the newsletters, reports, and publications provide information on the organization's activities or financial status except if their value is significant in relation to the membership fee and a fee is ordinarily charged to non-members.

Memberships in a club are **taxable** if the main purpose of the club is to provide dining, recreational, or sporting facilities to its members such as a membership in a golf club.

If your membership fees are exempt, you can choose to have them treated as taxable. This choice allows you to claim ITCs for any expenses related to the memberships. If your members are registered for GST/HST and are using their memberships in their commercial activities, they can also claim ITCs for the GST/HST they pay on their memberships. To have exempt memberships treated as taxable, you have to complete Form GST23, *Election by a Public Sector Body to Have Its Exempt Memberships Treated as Taxable Supplies*, or a statement containing prescribed information. You do not have to send us the form or the statement. However, you have to keep it with your books and records for audit purposes.

Memberships in a professional organization

Memberships in a professional organization are exempt if the members are required by law to be members in order to keep their professional status, such as a provincial law society membership. However, you can choose to have your memberships treated as taxable by completing Form GST24, *Election to Tax Professional Memberships.* You do not have to return this form to us. Instead, keep the completed form with your records for audit purposes.

Memberships in a registered party

Memberships in a registered party are always exempt. No election is available to make them taxable.

Public libraries

Library cards issued by public lending libraries are exempt.

Recreational programs

Membership fees and services for recreational programs established and operated by non-profit organizations are exempt if they consist of supervised instructional classes or activities involving athletics, outdoor recreation, music, dance, crafts, arts, hobbies, or other recreational pursuits in the following circumstances:

- The program is primarily provided to children 14 years old or younger, and a large part of it does not involve overnight supervision. For example, this exemption would apply to summer day camps.
- The program is provided primarily to underprivileged individuals or individuals with a disability. Programs including board, lodging, and recreational services at recreational camps or similar places may also be exempt when they are provided primarily to underprivileged individuals or individuals with a disability.

Relief of poverty, suffering, or distress

Food, beverages, or short-term accommodation provided to relieve the poverty, suffering, or distress of individuals are exempt. For example, 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 designed for seniors, underprivileged individuals, or individuals with a disability, such as meals-on-wheels programs, are exempt. In addition, food and beverages sold by **any person** to a non-profit organization operating such a program are also exempt.

Special issues

Donations and gifts

GST/HST does not apply to donations and gifts. A donation or gift is a voluntary transfer of money or property for which the donor does not receive any benefit in return. Sometimes, the donor receives property in exchange for the donation. This donation would still not be subject to GST/HST if the property has little or no resale value such as a key ring, a pin, or an envelope seal. However, if the donor receives a good or service of value in return, the payment may be subject to tax.

Grants and subsidies

As a non-profit organization, you may 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 non-profit organization, to major government-funded projects. Usually, when transfer payments are made in the public interest, or for non-profit purposes, we do not regard them as payment for a supply and, as such, there would be no GST/HST on the payment.

Generally, GST/HST does not apply to grants and subsidies your non-profit organization receives. However, if there is a direct link between a payment you receive and a supply you provide to either the grantor of the transfer payment or to a third party, the transfer payment may be regarded as payment for a supply. If this is the case, the transfer payment may be taxable, and tax may need to be collected on the amount.

Since the tax treatment of transfer payments may be complex and will be 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.

Donations, grants, subsidies, and sponsorships do not affect your non-profit organization's entitlement to GST/HST rebates or ITCs.

Sponsorships

Non-profit organizations often receive sponsorships from businesses to fund their activities. In return, the non-profit organization may provide promotional services to the sponsor or may allow the sponsor the right to use its logo, trade name, or any similar intellectual property.

GST/HST does not apply to these sponsorships **except** when the payment made by the sponsor is primarily (more than 50%) for advertising on television, radio, in a newspaper, magazine, or other publication issued periodically.

Example 1
A corporation agrees to sponsor a non-profit soccer team. In return, the non-profit organization agrees to advertise the corporation's trade name on the team's uniform.

Example 2
A corporation agrees to sponsor a non-profit organization's sporting event. In return, the organization allows the corporation to print the organization's logo on the corporation's products.

We do not consider a payment you receive from a sponsor to be payment for a good or service. Therefore, the payment is not taxable or exempt. It is simply not subject to tax.

Input tax credits

As a non-profit organization that is a GST/HST registrant, you recover the GST/HST you pay or owe on the purchases related to your commercial activities by claiming an ITC. **You cannot claim ITCs for the GST/HST you pay or owe on purchases and expenses you sell, use, or consume in the course of your exempt activities.**

Examples of goods and services for which you may be able to claim ITCs include the following:

- merchandise you buy to resell;
- items bought to manufacture goods;
- capital property such as office furniture, photocopiers, vehicles, and real property used primarily in commercial activities;
- general operating expenses such as office rent, office supplies, advertising, and utilities to the extent they are for use in commercial activities; and
- equipment rentals of computers, vehicles, and photocopiers to the extent they are for use in commercial activities.

There are some purchases and expenses for which you **cannot** claim an ITC such as:

- certain capital property (for more information, see "Capital property" on page 11);
- taxable goods and services bought or imported to provide exempt goods and services;
- membership fees or dues to any club whose main purpose is to provide recreation, dining, or sporting facilities (including fitness clubs, golf clubs, and hunting and fishing clubs), unless you acquire the memberships to resell in the course of your business; and
- goods or services you bought or imported for the personal consumption, use, or enjoyment of a member.

Some non-profit organizations can claim a rebate to recover part of the GST/HST paid on expenses for which they cannot claim ITCs. For more information on rebates, see "Public service bodies' rebate" on page 14.

There are special rules for non-profit organizations that are financial institutions. Call us for more information.

Most registrants claim their ITCs when they file their GST/HST return for the reporting period in which they made their purchases. However, you can claim your ITCs in any subsequent return filed by the due date of the return for your last reporting period that ends within four years after the end of the reporting period in which the ITC could have first been claimed.

Example
You are a quarterly filer and you buy office furniture in the reporting period October 1, 2006, to December 31, 2006, for which you can claim an ITC. The due date of the return is January 31, 2007. You can claim your ITCs in any subsequent return filed until January 31, 2011.

The time limit for claiming ITCs for a reporting period is reduced from four to two years for non-profit organizations with annual taxable supplies of more than $6 million for each of the two preceding fiscal year.

However, the two-year limit does not apply to non-profit organizations whose supplies of goods and services (other than financial services) during either of the two preceding fiscal years are at least 90% taxable supplies. These NPOs would have four years to claim their ITCs.

Under the two-year limit, you can claim your ITCs in any subsequent return that is filed within two years of the end of the fiscal year that includes the return in which the ITC could have first been claimed.

Example
You are a monthly filer with a fiscal year-end of December 31. You buy goods for resale in the reporting period September 1, 2006, to September 30, 2006, for which you can claim an ITC. The fiscal year that includes the September 2006 return ends on December 31, 2006. You can claim the ITC in any subsequent return until December 31, 2008.

General operating and overhead expenses

General operating and overhead expenses are expenses you have in the day-to-day operation of your business. These expenses include management, administration, and other support functions of the business, commercial leases, equipment rentals, as well as office supplies such as computer disks, paper, and pens. To determine if you can claim an ITC on a general operating or overhead expense, follow these rules:

- If the commercial use is 10% or less, you cannot claim an ITC.
- If the commercial use is more than 10% but less than 90%, base your ITC on the percentage used in commercial activities.
- If the commercial use is 90% or more, you can claim a full ITC.

Example
You own a two-story building and operate a retail store on the first floor (a commercial activity) and use the upper floor in your exempt activity. Your utility bill for the entire building is $200 a month plus GST. If you determine that 60% of the utility bill is for the store and 40% is for the upper floor, you can claim an ITC for 60% of the GST you paid on your utility bill.

The method you use to apportion consumption or use between taxable and exempt activities, must be fair and reasonable and be used consistently throughout the year. For example, a method commonly used is the number of square meters of space used in commercial activities relative to the total space of the building. You can also use other objective measures based on time allocation, cost, and revenue earned.

If you can attribute an expense directly to a specific use (taxable or exempt), you should use the direct attribution method. If an expense is used exclusively in the course of commercial activities, you can claim a full ITC for this expense. On the other hand, if an expense is used exclusively in exempt activities, you cannot claim an ITC for this expense. The other expenses that cannot be attributed to one type of activity (they are used in both taxable and exempt activities) can be apportioned by using one of the other methods discussed above.

Example
The mandate of your non-profit organization is to promote the arts in your local community in Nova Scotia. You developed a program consisting of supervised instructional classes in which children (14 years old and younger) learn water-paint and oil-paint techniques. You also sell arts and crafts. The same facility is used for both activities. Although you are a small supplier, you decided to register for GST/HST.

Your revenues and expenses are as follows:

Revenues	Amounts	HST
Sale of arts and crafts (commercial activity)	$ 30,000	$ 4,200
Art lessons to children (exempt activity)	10,000	0
Total	$ 40,000	$ 4,200
Expenses		
Supplies for art lessons	$ 1,000	$ 140
Merchandise for resale	20,000	2,800
Utilities	1,500	210
Office supplies	500	70
Rent	7,000	980
Total	$ 30,000	$ 4,200

The supplies you bought for your art lessons should be attributed exclusively to your exempt activity. No ITCs can be claimed for those expenses.

The merchandise you bought for resale should be attributed exclusively to your commercial activity. The full amount of HST can be claimed as an ITC.

The other expenses (utilities, office supplies, and rent) cannot be attributed to any particular activity. You have to apportion the use based on objective measures.

For example, if you determine that 75% of these expenses are used in your commercial activity, you can claim 75% of the HST paid or owed on them as an ITC.

Your ITCs are calculated as follows:

Utilities	$ 210	×	75% =	$ 157.50
Office supplies	70	×	75% =	52.50
Rent	980	×	75% =	735.00
Merchandise for resale	2,800	×	100% =	2,800.00
Total ITCs claimed				$3,745.00

Capital property

Special rules exist for calculating ITCs for capital property. Capital property for GST/HST purposes is based on the meaning of the term for income tax purposes. It is:

- any depreciable property. This means property that is eligible or would be eligible for capital cost allowance for income tax purposes; and
- any property, other than depreciable property, from which any gain or loss if you disposed of the property would be a capital gain or capital loss for income tax purposes.

Capital property is property you buy for investment purposes or to earn income. There are two types of capital property: capital personal property and capital real property. Capital personal property includes computers, photocopiers, office furniture, cash registers, equipment, and machinery. Capital real property includes land and buildings. For non-profit organizations and other public service bodies that are not financial institutions, the same rules (known as the primary use rule) apply for both types of capital property:

- If the commercial use is more than 50%, you can claim a full ITC.
- If the commercial use is 50% or less, you cannot claim an ITC.

Example
You bought a computer for $2,000 plus GST. You use the computer 60% in your commercial activities and 40% in your exempt activities. Since the computer is used more than 50% in your commercial activities, you can claim the full amount of GST paid as an ITC.

You may elect to have certain exempt supplies of real property treated as taxable. If you file this election, do not use the primary use rule. Instead, calculate ITCs for capital real property in the same way as you calculate ITCs for general operating and overhead expenses, as explained on page 10.

Change in use

The use of the property may change over the years. You have to apply the change-in-use rules in the following situations:

- Your capital property that was used more than 50% in commercial activities is now used 50% or more in non-commercial activities.
- Your capital property that was used 50% or more in non-commercial activities is now used more than 50% in commercial activities.

In each situation, you have to determine **the basic tax content** of the property when the change occurs. If you change the use, for example, from primarily (more than 50%) non-commercial to primarily commercial, you can claim an ITC to recover all or part of the GST/HST you paid when you bought the property. However, if you change the use from primarily commercial to primarily non-commercial, you will have to remit all or part of the ITC you claimed when you bought the property.

We have simplified the **basic tax content** formula to accommodate most situations encountered by registrants, including non-profit organizations. However, there are situations where this formula might not work, for example if you are a financial institution. Call us if you need more information.

The **basic tax content** formula that covers most situations for non-profit organizations is as follows:

$$(A - B) \times C$$

A = GST/HST payable at last acquisition and GST/HST payable on improvements to the property.

B = Any rebate or refund entitlement (not including ITCs). For non-profit organizations that qualify for the public service bodies' rebate, this amount usually equals 50% of the tax paid. For non-profit organizations that do not qualify for the rebate, this amount usually equals zero.

C = The lesser of

- 1; and
- the fair market value of the property at the time of the change in use **divided** by the cost at the last acquisition of the property and improvements to the property.

From non-commercial to commercial use

When you buy capital property for use 50% or more in non-commercial activities, you cannot claim ITCs to recover the GST/HST you paid. However, if you later change the use of the property from non-commercial to primarily commercial activities, we consider you to have sold the property, reacquired it, and paid GST/HST at that time. This means you can claim an ITC based on the **basic tax content** of the property at that time.

Example
On July 2, 2006, you bought a computer for use 60% in your non-commercial activities. At that time, you could not claim an ITC, but you claimed a rebate for 50% of the GST paid.

Cost of the computer:	$2,000
GST paid:	$120
Rebate claimed:	$60

At the end of the year, you change the use of the computer to 60% in commercial activities. The fair market value of the computer is $1,000 at the time of the change in use. You can now claim an ITC to recover part of the GST you paid in 2006, based on the basic tax content. The **basic tax content** of the computer is as follows:

Basic tax content $= (A - B) \times C$

$$= (\$120 - \$60) \times \frac{\$1{,}000}{\$2{,}000}$$

$$= \$30$$

You can claim an ITC of $30 on line 106 of your GST/HST return, in the reporting period in which the change in use occurs.

From commercial to non-commercial use

If you change the use of the property from primarily commercial to 50% or more non-commercial activities, you have to self-assess and pay part or all of the GST/HST you claimed as an ITC when you bought the property. The tax you have to account for is based on the **basic tax content** of the property at that time and has to be included in your net tax calculation.

Example
In 2005, you bought a building for use 60% in your **commercial** activities. At that time, you claimed a full ITC. Had you not been entitled to claim an ITC, you would have qualified for the 50% public service bodies' rebate.

Cost of the building:	$300,000
GST paid:	$21,000
ITC claimed:	$21,000
Rebate claimed:	$0

This year, you change the use of the building to 80% in non-commercial activities. The fair market value of the building is $400,000 at the time of the change in use. You have to remit tax based on the **basic tax content** of the property at that time as follows:

Basic tax content **= (A – B) × C**

= ($21,000 – $10,500) × 1

= $10,500

You have to add $10,500 in determining your net tax. You include this amount on line 103 of your GST/HST return in the reporting period in which the change in use occurs. You must remit any resulting positive amount of net tax.

As explained on page 14, you are not entitled to claim a 50% rebate in relation to this amount of tax since the basic tax content formula takes into account the public service body (PSB) rebate you would have claimed.

Simplified Method for calculating input tax credits

The Simplified Method is an alternative way of calculating your ITCs. It does not affect the way you charge, collect, or report GST/HST on supplies. Under the Simplified Method for claiming ITCs, you do not have to show GST/HST separately in your records. You only need to total the amount of taxable purchases for which you can claim an ITC. However, you have to keep the usual documents to support your ITC claims for audit purposes.

You can use the Simplified Method if you are registered for GST/HST and you meet the following four conditions:

- You (and your associates) have annual taxable supplies of $500,000 or less in your last fiscal year (not including supplies of financial services, sales of capital real property, and payments for goodwill) if you are in your first fiscal quarter. If you are not in your first fiscal quarter, annual taxable supplies should not be more than $500,000 in your last fiscal quarters of the current year.
- Your taxable purchases (and those of your associates) either in Canada or imported into Canada were not more than $2 million in the last fiscal year (not including zero-rated purchases).
- It is reasonable to expect that your taxable purchases (not including zero-rated purchases) for your next fiscal year will not be more than $2 million.
- You are not a listed financial institution.

If you qualify, you can start using the Simplified Method at the beginning of any reporting period. You do not have to file any forms with us if you decide to use this method, but you have to use it for at least one year if you continue to qualify.

You can only claim ITCs for purchases you use to provide taxable supplies. If you use the purchases for personal use or to provide both taxable and exempt supplies, you must apportion the purchases and claim ITCs only on the part that applies to commercial activities.

You have to separate your GST taxable purchases from your HST taxable purchases if you make purchases in both participating and non-participating provinces.

To calculate your ITCs for each reporting period, total your taxable purchases, including GST or HST, provincial sales tax (PST), tips, and penalty and interest on late payments.

Purchases on which you paid GST

GST at the rate of 6%:

To calculate your ITCs, multiply by 6 the total amount (including GST) of your eligible taxable purchases and divide the resulting amount by 106:

$$\frac{6 \times \text{eligible taxable purchases}}{106}$$

GST at the rate of 7%:

To calculate your ITCs, multiply by 7 the total amount (including GST) of your eligible taxable purchases and divide the resulting amount by 107:

$$\frac{7 \times \text{eligible taxable purchases}}{107}$$

Purchases on which you paid HST

HST at the rate of 14%:

To calculate your ITCs, multiply by 14 the total amount (including HST) of your eligible taxable purchases and divide the resulting amount by 114:

$$\frac{14 \times \text{eligible taxable purchases}}{114}$$

HST at the rate of 15%:

To calculate your ITCs, multiply by 15 the total amount (including HST) of your eligible taxable purchases and divide the resulting amount by 115:

$$\frac{15 \times \text{eligible taxable purchases}}{115}$$

To calculate your ITCs using the Simplified Method, follow these steps:

Step 1 – Eligible purchases

Add up separately your business purchases and expenses that are taxable at 6% and 7% GST and 14% and 15% HST and for which you can claim an ITC. Your totals will include:

- GST or HST;
- Non-refundable provincial sales taxes and other provincial taxes (only for 6% and 7% GST-taxable purchases);
- taxes or duties paid on imported goods;
- reasonable tips;
- reimbursements paid for taxable expenses incurred by employees and partners; and
- interest and late penalty charges related to purchases taxable at 6% and 7% or 14% and 15%.

Do **not** include:

- expenses on which you have not paid GST/HST such as salaries, insurance payments, interest, exempt or zero-rated purchases, and purchases from a non-registrant;
- purchases you made outside Canada that are not subject to GST/HST;
- real property purchases;
- rebatable or refundable provincial sales tax;
- purchases for which you are not entitled to claim an ITC such as:
  - the portion you use for personal use or to provide exempt goods and services;
  - capital personal property that you do not use more than 50% in your commercial activities; and
  - the portion of the cost of a passenger vehicle that exceeds the capital cost limitation for income tax purposes;
- 50% of the meal and entertainment expenses (you may include 100% of the expenses and make the 50% adjustment at the end of your fiscal year); or
- amounts paid or payable in reporting periods before you started using the Simplified Method to calculate your ITCs.

Step 2 – Calculating your ITC

Multiply your total taxable purchases from step 1 by 6/106 or 7/107 for GST purchases or 14/114 or 15/115 for HST purchases.

Step 3

Add the following amounts, if they apply, to your ITC amount calculated in Step 2:

- ITCs for the GST/HST you paid or owe on real property purchases. To determine the ITC you can claim for real property purchases, see "Real Property" on page 18;
- GST/HST you had to self-assess on goods and services you imported; and
- ITCs that you did not claim before you started using the Simplified Method, as long as the time limit for claiming them has not expired.

The following example shows how to calculate ITCs using the Simplified Method.

Example

Your non-profit organization provides taxable adult fitness classes. For this example, the provincial sales tax (PST) is 8% and is not refundable and the GST is at 6%.

Description	Expenses*
Rent	$ 1,070
Salaries**	3,000
Insurance**	50
Capital expenditures	575
Advertising	214
Office supplies	230
Inventory purchases	1,150
Land	10,000
Total purchases	$ 16,289

* Includes GST and non-refundable provincial sales tax.

** GST does not apply to salaries and insurance expenses.

Step 1

Taxable purchases = Total expenses minus salaries, insurance, and land

= $16,289 – ($3,000 + $50 + $10,000)

= **$3,239**

Step 2

ITC calculation $= \frac{\$3,239 \times 6}{106}$

= **$183.34**

Step 3

Add the ITC for land = $183.34 + GST on land

= $183.34 + ($10,000 × 6/106)

= **$749.38**

If you need more information on the Simplified Method for calculating ITCs, see our guide RC4022, *General Information for GST/HST Registrants*.

Public service bodies' rebate

A special GST/HST rebate allows certain non-profit organizations to recover 50% of the GST and federal part of the HST paid or payable on eligible purchases and expenses for which they cannot claim ITCs.

Note
You do not have to be registered for GST/HST to claim this rebate.

You qualify for the rebate for a particular fiscal year if the percentage of government funding you receive for the fiscal year, or for the previous two fiscal years, is at least **40%** of your total revenue. For instructions on calculating the percentage of government funding, see Form GST523, *Non-Profit Organizations – Government Funding*.

Most non-profit organizations are also eligible for a 50% rebate of the **provincial** part of HST if they are residents of a participating province. If your non-profit organization is not resident in a participating province, but you buy goods or services in a participating province, you may be entitled to a separate rebate of 8%, the provincial part of HST. For more information, see our guide RC4034, *GST/HST Public Service Bodies' Rebate* or contact us.

Eligible purchases and expenses

As a qualifying non-profit organization, you can claim a rebate of **50%** of the GST/HST you pay or owe on your **eligible** purchases and expenses, for which you cannot claim ITCs. Eligible purchases and expenses for the public service bodies' rebate include the following:

- general operating expenses such as rent, utilities, and administration expenses for which you **cannot** claim ITCs;
- allowances and reimbursements you pay to employees;
- goods and services used, consumed, or supplied in your exempt activities; and
- capital property. However, you cannot claim the rebate when you change the use of capital property from primarily commercial activities to primarily exempt activities, since the rebate is considered in calculating the basic tax content as explained on page 12.

Purchases and expenses not eligible

Certain purchases are not eligible for the public service bodies' rebate, including:

- club memberships if the main purpose of the club is to provide recreational, dining, or sporting facilities;
- tobacco products and alcoholic beverages you supply 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);
- property and services you buy to provide long-term residential accommodation **unless** more than 10% of the accommodation is restricted to seniors, youths, students, individuals with a disability, or individuals with limited finances who qualify under a means or income test;
- property and services used primarily (more than 50%) for the supply of a parking space made available to residential tenants **unless** more than 10% of the accommodation is restricted to seniors, youths, students, individuals with a disability, or individuals with limited finances who qualify under a means or income test;
- property and services acquired primarily for the purpose of making a supply of real property to another person for use by that person in leasing residential property on an exempt basis (including incidental parking). This restriction does not apply if that other person is a public sector body and more than 10% of the residential property is restricted to seniors, youths, students, individuals with a disability, or individuals with limited finances who qualify under a means or income test;
- property and services you bought to sell or give to an officer, an employee, or another person related to that individual, if the value of the benefit would be taxable under the *Income Tax Act*;
- property and services considered to be acquired by the operator of a joint venture in cases where any of the co-venturers would not be entitled to claim a rebate if they were acquired by the co-venturer; and
- certain returnable beverage containers in cases where you would have been denied an ITC if you were otherwise in a position to claim an ITC instead of a rebate.

Example
You own an apartment building and have contracted with the province to restrict 30% of the apartments to individuals with a disability. If you meet the 40% government-funding test, you can apply for the 50% public service bodies' rebate for the GST/HST you pay or owe on all expenses you incur to maintain the apartment building. You qualify for the rebate because more than 10% of the apartment building is available only to individuals with a disability.

How to apply for the rebate

When you file a rebate application for the first time, you have to complete Form GST66, *Application for GST/HST Public Service Bodies' Rebate and GST Self-Government Refund*. After we process your first rebate application, we will send you the personalized version of the form (Form GST284) for your next rebate application. Our guide RC4034, *GST/HST Public Service Bodies' Rebate* includes Form GST66, as well as completion instructions.

You have up to four years to apply for the rebate. Do not include your original invoices or receipts with your rebate application, but keep them for six years from the end of the year to which they relate for audit purposes. Also, you have to send us Form GST523, *Non-Profit Organizations – Government Funding*, each year. We will send you a personalized version of this form each year. You no longer have to file annual reports and financial statements.

Organizations not registered for GST/HST

You can send us one rebate application for the first six months of your fiscal year, and another for the last six months of your fiscal year.

You have to file the rebate application for your organization as a whole. However, if your organization has branches or divisions, you can also apply to have them file separate rebate applications. To do so, each branch or division must be separately identifiable by its location or the nature of its activities, and separate books and records must be maintained for the branch or division. The head office has to complete and send us Form GST10, *Application or Revocation of the Authorization to File Separate GST/HST Returns and Rebate Applications for Branches or Divisions*.

Organizations registered for GST/HST

You can apply for the rebate when you file your GST/HST return. If you file the two forms together, you remit only the difference between the net tax owing and the amount of your rebate. You have to include your rebate amount on line 111 of your return.

If you choose to have your branches or divisions file their own GST/HST returns, they also have to file their own rebate applications.

Simplified method for calculating the rebate

We have developed a simplified method for calculating the public service bodies' rebate. When you use this method, you do not have to keep track of the GST/HST you pay or owe to your suppliers for each invoice. However, you do have to separate your GST-taxable purchases from your HST-taxable purchases. You do not have to file any forms with us to start using this method, but you have to meet certain criteria.

You can use the simplified method to calculate your rebate if you meet the following conditions:

- Your taxable purchases (taxable at the rate of 6% or 14% on or after July 1, 2006, and at 7% or 15% before July 2006), and those of your associates, either in Canada or imported into Canada were $2 million or less in the last fiscal year and you reasonably expect that your taxable purchases in the current fiscal year will be $2 million or less.
- In addition, for GST/HST registrants, you and your associates must have annual taxable supplies of $500,000 or less in your last fiscal year (not including supplies of financial services, sales of capital real property, and goodwill) if you are in your first fiscal quarter. If you are not in your first fiscal quarter, annual taxable supplies should be $500,000 or less in your last fiscal quarter of the current year.

For more information on the simplified method and instructions on how to calculate the public service bodies' rebate, see our guide RC4034, *GST/HST Public Service Bodies' Rebate.*

Rebate for printed books

You may qualify for the 100% rebate of GST and the federal part of HST (6% on or after July 1, 2006, before July 2006 at 7%) paid on printed books, audio recordings of printed books, and printed versions of religious scriptures if you meet all the following conditions:

- You are a qualifying non-profit organization.
- You operate a public lending library.
- The printed books, audio recordings of printed books, and printed versions of religious scriptures are not bought for resale.

In addition, qualifying non-profit organizations whose primary purpose is to promote literacy are eligible for this rebate if they meet certain requirements. Contact us for more information.

You claim this rebate on line 307 of Part E of your PSB rebate application. For more information, see our guide RC4034, *GST/HST Public Service Bodies' Rebate* or GST/HST Memoranda Series, Chapter 13.4, *Rebates for Printed Books, Audio Recordings of Printed Books, and Printed Versions of Religious Scriptures*.

If you claim an amount under the 100% rebate for printed books, you cannot claim the same amount under another rebate (such as the public service bodies' rebate).

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

Simplified accounting methods

This section applies only to non-profit organizations that are also GST/HST registrants.

Special Quick Method for qualifying non-profit organizations

As a GST/HST registrant, you have to keep track of the GST/HST payable on your business purchases and the GST/HST you charge on taxable supplies in order to complete your GST/HST return.

To help reduce your paperwork and bookkeeping costs, you can use the Special Quick Method for public service bodies if you are a **qualifying** non-profit organization (the percentage of government funding you receive for the fiscal year or the previous two fiscal years is at least 40% of your total revenue). Otherwise, you may be entitled to use the Quick Method of accounting available to other businesses. This other method is explained on the next page.

The Special Quick Method is a simple way to calculate the net tax you have to remit. This method has been developed for registered public service bodies, including non-profit organizations that are eligible to claim the PSB rebate. With the Special Quick Method, you do not have to keep track of the end use of your purchases. In other words, you do not have to calculate which purchases are for commercial activities and which are for exempt activities.

When you use the Special Quick Method, you collect GST/HST in the usual way on all taxable supplies, but remit only a reduced percentage. **You do not claim ITCs on most of your purchases and expenses since you keep part of the tax you collect on your supplies.** The remittance rates vary depending on whether the sales were made in a participating province or a non-participating province and where you are located.

The Special Quick Method remittance rates

The remittance rates for qualifying non-profit organizations using the Special Quick Method are the following:

Special Quick Method rates on or after July 1, 2006:

- **9.4%** for supplies made in a participating province through a permanent establishment in a participating province;
- **4.3%** for supplies made in a non-participating province through a permanent establishment in a non-participating province;
- **2.5%** for supplies made in a non-participating province through a permanent establishment in a participating province; and
- **11%** for supplies made in a participating province through a permanent establishment in a non-participating province.

Special Quick Method rates before July 2006:

- **10%** for supplies made in a participating province through a permanent establishment in a participating province;
- **5%** for supplies made in a non-participating province through a permanent establishment in a non-participating province;
- **3.2%** for supplies made in a non-participating province through a permanent establishment in a participating province; and
- **11.6%** for supplies made in a participating province through a permanent establishment in a non-participating province.

You can claim ITCs on certain items only. For more information, see our booklet RC4247, *The Special Quick Method of Accounting for Public Service Bodies*.

How to apply for the Special Quick Method

You can use the Special Quick Method whether you file GST/HST returns monthly, quarterly, or annually. Call us, or complete Form GST287, *Election or Revocation of the Election by Public Service Bodies to Use the Special Quick Method of Accounting*, and return it to us.

You can make this election at the start of any reporting period. Once you decide to use the Special Quick Method, you have to use it for at least one year. You can keep using it as long as you remain eligible (i.e., you meet the 40% government funding test). For more information on the Special Quick Method, see our booklet RC4247, *The Special Quick Method of Accounting for Public Service Bodies*.

Quick Method for other non-profit organizations

If your non-profit organization does not receive at least 40% of its revenues from government funding, you cannot use the Special Quick Method for public service bodies. However, you may be entitled to use the Quick Method of accounting.

The Quick Method of accounting is a simple way for you to calculate the amount of GST/HST you have to remit. If your annual worldwide taxable supplies (including zero-rated supplies) and those of your associates are $200,000 or less (including GST/HST) in any four consecutive fiscal quarters over the last five fiscal quarters, you can use the Quick Method. The $200,000 limit does not include supplies of financial services, sales of real property, sales of capital assets, and goodwill.

> **Note**
> If you decide to use the Quick Method, you have to use it for at least one year.

With the Quick Method, you charge and collect GST or HST on taxable supplies in the usual way. To calculate the net GST/HST to remit, you multiply your taxable supplies including GST and your taxable supplies including HST made during the reporting period by the Quick Method remittance rates that apply to those supplies. There are several remittance rates. For information on determining which rate or rates apply to your supplies, see our booklet RC4058, *Quick Method of Accounting for GST/HST*.

> **Note**
> When applying the Quick Method remittance rate, the amount of the supply must include the GST/HST collected or collectible, but **not** the provincial sales tax if it was applicable.

The Quick Method remittance rates apply only to supplies you make in the usual course of business, on which you must collect GST or HST.

For supplies you make outside the usual course of business, such as real estate sales or sales of used capital goods eligible for a capital cost allowance for income tax purposes, you have to include the GST/HST charged in your net tax calculation rather than using the Quick Method remittance rate. Do not include proceeds from selling your business assets in the sales figure you use for your Quick Method calculation.

When you use the Quick Method, you cannot claim ITCs on your day-to-day operating expenses and inventory purchases. However, you can claim ITCs for purchases of land and purchases of goods that are eligible for capital cost allowance under the *Income Tax Act*. This includes buildings, computers, vehicles, other large equipment, and machinery. You can claim these credits when you complete your GST/HST return. In addition, if you sell capital assets, you have to remit the full GST or HST, not the Quick Method percentage.

Credit of 1%

You are also entitled to a 1% credit on the first $30,000 (including GST/HST) of your annual supplies on which you must collect GST or HST. To qualify for the 1% credit, you have to use the Quick Method at the beginning of your fiscal year, or if you are a new GST/HST registrant, on the day you became a registrant.

How to apply for the Quick Method

If you want to use the Quick Method, call us or complete Form GST74, *Election and Revocation of an Election to Use the Quick Method of Accounting*, and return it to us. You can find this form and more information on the Quick Method, in our booklet RC4058, *Quick Method of Accounting for GST/HST*.

Real property

This section explains the GST/HST rules for sales and leases of real property made by non-profit organizations. It provides information on ITCs and subsidized residential complexes. It also explains the special election that allows you to treat certain exempt supplies of real property as taxable supplies.

Taxable supplies of real property

Generally, most sales and leases of real property made by non-profit organizations are exempt. However, the following supplies are subject to GST/HST:

- sales of new or substantially renovated (90% or more) residential property;
- sales of used residential property when the non-profit organization is a builder who claimed ITCs on the last acquisition of the property and/or on any improvements made to the property;
- deemed supplies of real property such as a change in primary use from commercial to exempt activities;
- sales of land to an individual or a personal trust when there is no structure on the property that the organization used as an office, or in commercial or exempt activities;
- supplies of real property that, immediately before the time of the supply, the organization used primarily in its commercial activities;
- short-term accommodation of less than one month, unless it is provided to relieve the poverty, suffering, or distress of individuals, or it is a residential unit that is rented to an individual for $20 or less per day of occupancy;
- leases of real property (other than short-term accommodation), when the continuous possession or use of the property is for a period of less than one month and the supply is made in a business carried on by the non-profit organization;
- licences to use real property (other than short-term accommodation) when the supply is made in the course of a business of the non-profit organization such as evening rentals of a banquet facility or the rental of an ice rink to a hockey club every Monday night;
- parking spaces made by way of lease, licence, or similar arrangement in a business carried on by the organization (other than the long-term lease of a parking space to a residential tenant or the occupier of a residence where the space forms part of the residence, or the supplier of the space is an owner or occupier of the residence and the use of the space is incidental to the use and enjoyment of the residence or, in the case of a condominium unit, the space forms part of the condominium complex);
- sales of real property that the non-profit organization has seized or repossessed (unless the sale of the property is exempt such as the sale of a used residential complex); and
- real property where a non-profit organization has filed an election to treat the supply as taxable. For more information, see the section "Election for real property of a public service body" on the next page.

ITCs for real property

The rule for calculating ITCs on purchases of capital real property is the same as for calculating ITCs on purchases of other capital property (the primary use rule):

- If you intend to use the property more than 50% in commercial activities, you can claim a full ITC.
- If you intend to use the property 50% or less in commercial activities, you cannot claim an ITC.

It is possible that the use of the real property will change over the years. If the use of the real property changes from non-commercial to primarily commercial, you can claim an ITC at the time of the change in use. On the other hand, if the use changes from commercial to non-commercial, you may have to remit part of the ITCs you claimed earlier. We explain the rules on page 12.

The other expenses related to real property such as maintenance and utilities are subject to the usual rules. You can claim ITCs based on the percentage of use of those expenses in your commercial activities, as explained on page 10.

Subsidized residential complex

The following rules apply to non-profit organizations that receive government funding to build (or build an addition to) a residential complex where at least 10% of the residential units are intended to be leased to seniors, youths, students, or individuals with a disability or limited financial resources.

Government funding means financial payments from a grantor that can be measured and identified in your financial statements as government funding, and includes the following:

- a grantor's payment to support your project of building a residential complex for lease to seniors, youths, students, or individuals with a disability or limited financial resources; and
- a forgivable loan you receive from a grantor.

A **grantor** can be from any level of government—federal, provincial, and municipal. It also includes Indian bands and bodies established by federal, provincial, or municipal governments or bands to fund charitable or non-profit activities for Indian bands or the government. However, we do not consider federal and provincial Crown corporations that perform substantially all (90% or more) commercial activities to be grantors.

During the construction phase, you can register for the GST/HST and claim ITCs for the goods and services you buy that relate to the construction of the complex. When the construction is substantially completed, and you first give possession of a unit in the building under a lease to an individual as a place of residence, a deemed sale occurs and you have to calculate and account for the GST/HST based on the **greater** of the following:

- GST or HST on the fair market value of the residential complex; and
- the total of all the tax you paid or owe on the acquisition of the land, on the construction of the building, and on any improvement to the property.

Example
Your non-profit organization in New Brunswick registers for the GST/HST and constructs a multiple-unit residential building for which you receive government funding. You paid $25,000 HST on the purchase of the land and $30,000 HST on the construction of the building. You claimed ITCs to recover the total tax paid. The building's fair market value is less than the cost of the land and the construction of the building. Therefore, 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 self-assess HST equal to the amount of HST you paid or owe on the land and on the construction of the building or on any other improvement to the property.

Election for real property of a public service body

As a non-profit organization, you can choose to file an election that allows you to treat certain exempt sales and leases of real property as taxable supplies. This election allows you to claim ITCs for the GST/HST you paid or owe when you acquired the property, or for any improvements to it, to the extent that the property is used to make taxable supplies (as long as it is used at least 10% in commercial activities). This election applies to the following real property:

- capital real property;
- real property held in inventory for the purpose of supplying it; and
- real property acquired by way of lease, licence, or similar arrangement to resupply the property by way of lease, licence, or similar arrangement or for the purpose of assigning the arrangement.

To make this election, you have to complete and file with us Form GST26, *Election or Revocation of an Election by a Public Service Body to Have an Exempt Supply of Real Property Treated as a Taxable Supply*.

> **Note**
> You cannot use this election to make **all** of your supplies of real property taxable. For example, the election cannot apply to make long-term residential rents taxable.
>
> Information on the types of supplies the election can apply to will be included in GST/HST Memorandum 19.6, *Real Property and Public Sector Bodies.*

When you make this election for a particular real property, the following rules apply:

- You charge GST/HST on the sale, lease, or licence of the property.
- The primary use rule you usually follow for claiming ITCs on the acquisition of the property does not apply. Instead, you calculate and claim your ITC based on the percentage of use of the property in your commercial activities (you have to use it at least 10% in commercial activities to be able to claim an ITC).
- This election allows you to claim ITCs on purchases and expenses related to the real property (such as maintenance and utilities) after you make the election, to the extent the property is used in commercial activity.

You can make the election when you acquire the real property, or in later reporting periods.

Election effective the day of acquisition

If the election becomes effective on the day when you acquire the real property, you claim your ITC based on the percentage of use of the property in your commercial activities (as long as it is used at least 10% in your commercial activities).

Example
Your non-profit organization is engaged only in exempt activities. You buy real property that contains a four-storey building, the first floor of which you use for your business. You lease the other three floors to businesses for periods of more than one month (exempt activity). Since the entire property is used only for exempt activities, you cannot claim an ITC to recover the GST/HST paid on acquiring the property.

However, if you file Form GST26 and make the election effective on the day you acquire the property, GST/HST applies to the leases of the offices on the second, third, and fourth floors. If you determine that 75% of the property is now used in commercial activities, you can claim an ITC for 75% of the GST/HST paid on the acquisition of the property. You can also claim ITCs to recover the GST/HST paid on utilities and maintenance that relate to the second, third, and fourth floors.

Election effective after the day of acquisition

If the election becomes effective after you acquire the real property, you can generally claim an ITC to recover all or part of the GST/HST you paid or owe on the last acquisition and were not able to recover because the property was not used primarily (more than 50%) in commercial activities.

Before calculating your ITCs, you have to determine the **basic tax content** of the property. This formula is explained in the section "Capital property" on page 11.

When you make this election effective at some time after the day of acquisition of the property, the following rules apply:

- You are deemed to have made a taxable sale of the property immediately before the effective date of the election and to have collected GST/HST on the sale equal to the basic tax content of the property on the effective date of the election. You are also deemed to have purchased the property on the effective date of the election and to have paid GST/HST on the deemed purchase equal to the basic tax content of the property on the effective date of the election. If the deemed acquisition is in respect of real property to be used primarily in your commercial activities, report the tax on line 205 of your GST/HST return. If the deemed acquisition is in respect of real property for use otherwise than primarily in commercial activities, you must file GST 60, *GST/HST Return for Acquisition of Real Property*, and report the deemed tax collected on line 205.
- Because of the deemed sale, you are entitled to claim an ITC equal to the basic tax content provided the property was not used primarily in commercial activities immediately before the deemed sale.
- You are entitled to an ITC for the GST/HST paid on the deemed acquisition based on the extent of use of the real property in commercial activities.

Example
In 2005, you acquired a building in Ontario for $300,000 plus $21,000 GST. At that time, 70% of the building was used in your exempt activities and 30% was leased for periods of at least one month (exempt activity). Since the primary use rule was not met (i.e., the property was not for use primarily in commercial activities), you could not claim an ITC. However, since you are a qualifying non-profit organization, you were entitled to claim the 50% public service bodies' rebate ($21,000 × 50% = $10,500). In 2006, you file the election to treat the exempt leases as taxable. No improvements were made to the property. The building is now used 30% in commercial activities. The fair market value of the property at the time of the election is $310,000.

You first have to determine the **basic tax content** of the property (this formula is explained on page 12):

Basic tax content **= (A – B) × C**

= ($21,000 – $10,500) × 1

= $10,500

GST paid on acquisition of the building	= $21,000
GST paid and collected on the deemed sale	= $10,500
ITC available at time of the deemed sale	= $10,500
ITC available on the deemed acquisition, based on the percentage of use of the building in your commercial activities	= $10,500 × 30% = $3,150

In addition, you can now claim ITCs for 30% of the GST you paid or owe on operating expenses, such as electricity, maintenance, and utilities related to the commercial use of the property.

You cannot claim another PSB rebate for the deemed tax paid for which an ITC was not available.

For the purposes of this election, "real property" means the entire estate or interest in the real property held by the non-profit organization included in the **legal description** or **leasehold interest** (which include all structures and other improvements that are fixtures to the land).

Filing the election

To make the election, you have to file Form GST26, *Election or Revocation of an Election by a Public Service Body to Have an Exempt Supply of Real Property Treated as a Taxable Supply*, no later than one month after the end of the reporting period in which the election is to become effective. You file this election for each property you want to treat as taxable.

You can revoke this election by filing another Form GST26. The revocation will be effective on the day you specify on Form GST26, as long as you file the form within one month after the end of the reporting period in which the election ceases to be effective.

> **Note**
> The following change is proposed to apply in respect of elections that are revoked after May 1, 2006. If you cancel your election, you will generally have to account for GST/HST equal to the basic tax content of the property on the day of revocation in your net tax calculation. Before May 2, 2006, the GST/HST was calculated on the fair market value of the property.

Change-in-use rules

The following rules apply **only** to capital real property for which you made an election to treat exempt supplies of real property as taxable supplies, and if you are registered for the GST/HST.

As explained earlier, when you make the election to treat certain exempt supplies of real property as taxable supplies, ITCs are calculated based on the percentage of use in commercial activities. It is possible that this percentage will change over the years. If you increase the percentage of use in commercial activities, you may be able to claim additional ITCs. On the other hand, if you decrease the percentage of use in commercial activities, you may have to account for tax that you are considered to have paid.

Increasing commercial use

When you increase the commercial use of capital real property by 10% or more cumulatively, you can claim an ITC equal to the **basic tax content** of the property multiplied by the percentage of increase in commercial use of the real property.

Reducing commercial use

When you decrease the commercial use of real property by 10% or more cumulatively (without ceasing or reducing the total commercial use to 10% or less), we consider you to have collected GST/HST on the part you no longer use in your commercial activities. The amount of GST/HST you have to account for in determining your net tax is equal to the **basic tax content** of the property multiplied by the percentage of decrease in commercial activities.

Ceasing commercial use

When you stop using the real property for commercial use or decrease the commercial use to 10% or less, we consider you to have sold and reacquired the property.

If the deemed sale is taxable, the amount of GST/HST you have to account for in determining your net tax is equal to the **basic tax content** of the property. If the real property was used partially in other than commercial activities before the change in use, contact us for more information.

Your opinion counts!

We review our publications every 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:

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