CANADA:
GOODS AND SERVICES TAX

On January 1, 1991, the Goods and Services Tax (GST) replaced the Federal Sales Tax (FST) in Canada. Under the FST most goods entering Canada were taxed at a rate of either 13.5 percent or 9 percent for construction building equipment. Actually, importers had an advantage over Canadian producers as they paid the FST at a duty paid value at the border, thereby escaping the 13.5 percent on their marketing and distribution costs. Therefore, the FST system was a cost of doing business. The FST was contained in the selling price and made goods more expensive as wholesaler marked up prices to retailers and retailers to consumers. This system of taxation needed to be revised, and the Goods and Services Tax was adopted.

GOODS & SERVICES TAX OVERVIEW

The GST is a value-added tax in which each stage of the production/distribution system is assessed. Thus, it is not like a retail tax or a one incident tax that is charged to a consumer when a sale is made.

There are few exemptions under the GST. Under the old tax system or the FST, all raw materials, parts, components and production were exempt as Canadian manufacturers accounted for the tax when they sold the goods. Finished goods such as food, clothing or services weren't taxed. Many of these items are now subject to the GST. Tax-exempt status only applied to the following services: real property, health care, education, child care, legal aid, public sector bodies, financial services and ferry, road and bridge tolls.

Finally, the GST may or may not be visible. This is a major concern to Canadians and a source of much resentment.

HOW THE GST OPERATES

Technically, the GST is a tax that is levied on the purchaser. After the vendor collects the tax, it is then remitted to Revenue Canada. However, the tax that the vendor pays to the government is the difference between what was collected and what tax was paid in the marketing and distribution costs. Hence, the GST is a business transfer tax as it flows through the business to the consumer.

GST - GST PAID = GST REMITTED

At times a company may find itself in the desirable position to collect a refund. This happens when a company pays more GST than it collects. Most Canadian exporters fall into this category as the GST cannot be charged to a foreign customer.

GST AND THE DISTRIBUTION CHAIN

	LOGGER	LUMBER MILL	FURNITURE MFGR	RETAILER
Invoice	$1,000	$3,000	$10,000	$15,000
GST	70	210	700	1,050

TAX RETURN

	LOGGER	LUMBER MILL	FURNITURE MFGR	RETAILER
Tax on Sales	$70	$210	$700	$1,050
Less tax on purchases	0	70	210	700
Tax to Canada	70	140	490	350

Revenue Canada also receives $1,050 GST from the consumer

INPUT TAX CREDIT

The input tax credit is a balance sheet item only. Companies want to capture all the GST they pay so that they can deduct it from the GST they collect.

GST IMPACT ON IMPORTERS: THE NON-RESIDENT IMPORTER (NRI)

Many non-resident companies, who do not have permanent establishments or sales personnel in Canada but import goods into Canada and act as the importer of record, are not required to register for the GST. The GST is levied on the duty paid value at the border on all goods except those that are exempt. However, you will be allowed to flow the GST through to your customer on your commercial invoice. The statement “includes GST paid at the border” must appear on the commercial invoice followed by a copy of the Canadian Customs entry. This is called the flow-through document. Send your Canadian customer a copy of the entry that proves the tax was paid, and he/she will be able to get his input tax credit back.

THE REGISTERED NON-RESIDENT IMPORTER

Please bear in mind that there are certain circumstances when a non-resident should register in order to recover all GST paid to Canadian customers. For example, a Non-Resident Importer warehouses goods in a Canadian public or private warehouse for reshipping to various Canadian customers. GST would be applicable on warehouse fees for goods delivered in Canada. Accordingly, the NRI should register to recover this GST as an input tax credit.

To register, the Canadian government requires a minimum security bond of $5,000.00. The security bond is based on the net tax you pay. As a non-resident importer you do not have any net tax, because the tax you pay at the border flows through to your customer. Nevertheless, you must pay the minimum security bond.

As the Registered Non-Resident Importer (NRI), you will pay the GST at the border. On your commercial invoice, you must have your registration number and show a 7 percent increase in your price. Your customer will be able to recover the GST. Any services that you pay GST on (brokerage fees, hotel bills, etc.) you will be able to get back now that you are registered. You can file monthly, quarterly or semi-annually.

ZERO - RATED PRODUCTS

You may want to consult with a Broker to ascertain whether or not your product is zero-rated. Categories for consideration would include:

- ❖ MEDICAL DEVICES
- ❖ PRESCRIPTION DRUGS
- ❖ BASIC GROCERIES. The majority of food and beverages for human consumption at home bear no tax. However, food and beverages to be consumed in a restaurant are taxed. Other taxable goods include:
    - ✓ alcoholic beverages
    - ✓ non-alcoholic malt beverages
    - ✓ soft drinks
    - ✓ non-carbonated fruit drinks
    - ✓ candies
    - ✓ confections
    - ✓ snack food
    - ✓ salted nuts
    - ✓ granola products
    - ✓ Popsicle’s
    - ✓ ice cream in a single service
    - ✓ doughnuts (one or six)

- AGRICULTURE AND FISHING. Most products that farmers and fisherman sell are zero-rated. It depends on the state of the product when it crosses the border. For example: a head of lettuce is not taxed, but if the lettuce is turned into a McDonald's salad, it is taxed. This is also true for farm equipment. Agricultural implements (tractors, harvesting equipment, etc.) are zero-rated. However, parts and components of the equipment are not. The following agricultural products are taxed:
    - ✓ cut flowers
    - ✓ soil
    - ✓ firewood
    - ✓ horses
- EXPORTS. Canadian exports are zero-rated.
- TRAVEL SERVICES. Tickets for overseas flight are not taxed, but flights to the U.S. are taxed.
- TRANSPORTATION SERVICES
- INTERNATIONAL ORGANIZATIONS
- FINANCIAL SERVICES

SCHEDULE V EXEMPT SUPPLIES

There is no provision for an exempt institution or individual to recover the tax as a business does. The following areas are exempt:

- Real property
- Health care services
- Education services
- Child care services