

Understanding GST

GST Facts

The GST is a 6% tax on most Canadian goods and services. In many provinces, there is also a Provincial Sales Tax (PST) on some goods and services.

In Nova Scotia, New Brunswick, and Newfoundland, the PST is combined with the GST, resulting in a **Harmonized Sales Tax (HST) of 14%**.




Businesses Exempt From GST: Small Suppliers

Most businesses must collect and remit this tax. However, some "small suppliers" (defined as a sole proprietor, partnership, or corporation whose total taxable revenues before expenses are \$30,000 or less annually) do not need to collect or remit GST.

Public service bodies, such as charities, non-profit organizations, municipalities, or universities, qualify as small suppliers if their total taxable revenues before expenses are \$50,000 or less annually.

Taxi and limousine operators and non-resident performers are the exception to these general guidelines; they must register for the GST or HST even if they are small suppliers.

Nonetheless, many small suppliers may want to register for the GST or HST. If one doesn't register, not only will they not be able to charge their customers and clients GST (or HST), but they won't be able to use the GST they pay out on business purchases to get Input Tax Credits.



Claiming Input Tax Credits May Bring A GST Rebate

Input Tax Credits are credits that one can claim to recover the GST or HST they paid or owe for goods or services acquired in the course of commercial activities.

One can claim Input Tax Credits for the GST or HST paid or owed on the goods or inventory one had on hand when they first registered for a GST number.

One may claim Input Tax Credits for operating expenses, such as commercial rent, utilities, and office supplies, and for meal and entertainment expenses. You may also claim Input Tax Credit for expense reimbursements paid out to employees or partners. And you can claim Input Tax Credits for capital property as well.

If one doesn't register, the GST or HST paid on business purchases is a cost they can't claim. For most small businesses, the amount of GST paid to acquire supplies and services over the course of a year is considerable, so GST registration may make economic sense.

Input tax credits

GST registrants recover the GST they pay (or owe) on the purchases and expenses related to their commercial activities by claiming an Input Tax Credit (ITC) on line 106 of the GST/HST return.

If you keep track of the GST/HST you paid or owe by adding a column for GST/HST to the purchases and expenses side of your records, total this column to calculate your ITCs for each reporting period. For example, Gilson Company calculates that it paid \$308 in GST during March, as shown in the following chart.

Date	Cheque	Description	Base Amount	GST Paid
Mar. 5	354	insurance	\$150	
Mar. 7	355	wages	1,000	
Mar. 10	356	office supplies	200	\$ 14
Mar. 18	357	inventory	2,000	140
Mar. 20	358	advertising	500	35
Mar. 21	359	wages	1000	
Mar. 27	360	Utilities	200	14
Mar. 31	361	rent	1,500	105
Total			\$6,550	\$308

Categories of Goods and Services Related to GST

GST Taxable describes all goods and services that are not GST exempt or zero rated. (For example: hotel accommodations, buying or leasing a car, franchise fees, and gasoline.)

GST Exempt goods and services are not subject to GST. Suppliers of such goods or services cannot claim input tax credits to recover the GST they paid to produce such goods or services. Examples include services such as advertising, arranging and issuing insurance policies, child-care services, and many educational services, including music lessons.

Zero-rated applies to a limited number of goods and services that are taxable at the rate of 0%. This means there is no GST charged on the supply of these goods and services, but suppliers of these goods and services can claim an ITC for the GST they pay on purchases and expenses made to produce or provide these goods or services. Some examples of GST zero-rated goods and services are basic groceries, prescription drugs, and exports.

Examples of Exempt and Zero-rated Goods & Services

Exempt goods and services:

- used residential housing;
- most health care and dental services;
- certain childcare services; and
- many educational services.

Zero-rated:

- basic groceries such as milk, bread, and vegetables;
- agricultural products such as grain, raw wool;
- prescription drugs and drug-dispensing fees; and
- medical devices such as hearing aids and artificial teeth.

What's the difference?

Although businesses do not charge GST or HST on zero-rated goods or services, they can still claim GST Input Tax Credits.

Not only do businesses need to track how much GST they collect, and how much GST they pay, but they must also track GST by category as well so they can correctly calculate Input Tax Credits.

When one completes a GST or HST return, they deduct their Input Tax Credits from the total amount of GST or HST they charged.

If the total amount of tax you charged is more than the amount of Input Tax Credits collected, the difference must be paid to the CCRA. If the amount of Input Tax Credits one has totals more than the total amount of GST or HST charged to customers, a GST tax refund can be claimed.

Analyzing GST Transactions

Acme Corp. sells \$100.00 of goods for cash.

Journal

Cash	107.00		
GST Payable		7.00	
Sales			100.00

Ledger

Cash		GST Payable		Sales	
107.00			7.00		100.00

Analyzing GST Transactions

Acme Corp. receives a \$100.00 phone bill.

Journal

Phone Expense	100.00		
GST Recoverable		7.00	
A/P - Bell			107.00

Ledger

A/P - Bell		GST Recoverable		Phone Expense	
	107.00	7.00		100.00	

Drawings and GST

Items originally claimed as Input Tax Credits can be withdrawn from the business. However, the owner would have to pay GST on the fair market value of the items at that point in time.

Example: Acme Corp.'s owner withdraws manufacturing equipment having a fair market value of \$100.00

Journal

Drawings	106.00		
Manufacturing Equipment		100.00	
GST Payable			6.00

Ledger

Drawings		Manu. Equip.		GST Payable	
106.00			100.00		6.00

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