




Application of the GST/HST to Charities

Ontario

Purpose of presentation

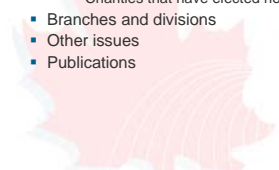
To provide a general overview of how the Goods and Services Tax (GST) and the Harmonized Sales Tax (HST) apply to charities



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Outline

- GST/HST for Charities
- Introduction of HST in Ontario
- Tax status of supplies
- GST/HST registration
- PSB rebate
- GST/HST recovery & remittance
 - Charities not registered for the GST/HST
 - Charities that use the net tax calculation method
 - Charities that have elected not to use the net tax calculation method
- Branches and divisions
- Other issues
- Publications



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GST/HST for charities

Introduction

Charity

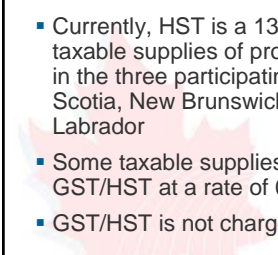
- A “**charity**” means a registered charity or registered Canadian amateur athletic association for income tax purposes
- A charity has a charity registration number that allows it to issue official receipts for income tax purposes
- A charity does not include a public institution



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Introduction to the GST/HST

- GST is a 5% tax that applies to most taxable supplies of property and services made in Canada
- Currently, HST is a 13% tax that applies to most taxable supplies of property and services made in the three participating provinces – Nova Scotia, New Brunswick and Newfoundland and Labrador
- Some taxable supplies are subject to the GST/HST at a rate of 0% (zero-rated supplies)
- GST/HST is not charged on exempt supplies



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Do charities have special GST/HST rules?

- Some GST/HST rules that apply to charities are very different from those for businesses. For example,
 - most supplies made by charities are exempt while most supplies made by businesses are taxable
 - many charities are not required to register for GST/HST purposes
 - must use the Net Tax Calculation if the charity is a GST/HST registrant

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Do charities have special GST/HST rules? Continued...

- Some GST/HST rules that apply to charities are very different from those for businesses. For example,
 - limited input tax credits (ITCs) that they may claim while most businesses can recover the GST/HST paid or payable on their business purchases by claiming ITCs
 - charities can recover a portion of the GST/HST paid or payable on their purchases (subject to certain exceptions) by claiming a public service bodies' (PSB) rebate
 - Charities will not be required to use electronic filing

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Introduction of Harmonized Sales Tax (HST) in Ontario

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Harmonization of the sales taxes in Ontario

- On July 1, 2010, the GST and the Ontario Retail Sales Tax will be replaced by the HST and most taxable supplies made in Ontario will be subject to the HST at the rate of 13%
- The HST will use the same tax base and structure as the GST

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HST in Ontario

Ontario	
Federal part	5%
Provincial part	8%
HST rate	13%

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What stays the same

- Property and services previously subject to GST will be subject to HST
- Zero-rated or exempt supplies of property and services will retain the same tax status
- Registrants will use the same GST/HST forms, returns and reporting periods
- Registration, elections and approvals will still be in effect
- PSB rebate available on the GST or federal part of HST
- Business number remains the same

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What will be different under HST?

- Collect 13% HST on taxable supplies made in Ontario
- PSB rebate for charities on the provincial part of HST
 - 82% in Ontario
- Point-of-sale rebates available on certain purchases

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Tax Status of Supplies

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Supply & Taxable supply

- A “**supply**” means the provision of property or a service in any way, including sale, transfer, barter, exchange, licence, rental, lease, gift, and disposition
- A “**taxable supply**” means a supply to which the GST/HST will apply at the rate of either 5%, 12%, 13% or 0% (zero-rated supply)

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GST/HST and charities

- Most supplies made by a charity are exempt
- However, some supplies made by a charity are subject to the GST/HST
- We will review some of the more common supplies

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Exempt Supplies made by a Charity

- Most services
- Supplies of used or donated goods
- Parking space rentals
- Facility rentals (e.g., halls for weddings)
- Catering services for private functions (e.g., wedding receptions)
- Property or service provided free of charge (90% or more of the time)
- Goods or services sold at or below direct cost

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Taxable supplies made by a charity

Some supplies made by a charity are **taxable**, such as:

- sales of capital property used primarily (>50%) in a commercial activity
- new goods acquired for resale at a profit that are sold regularly or continuously throughout the year, or a significant part of the year
- restaurant operations
- recreational memberships

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Recreational programs

- To be **exempt** supplies of athletic, outdoor recreation, music, dance, arts or crafts programs must be primarily (>50%) for:
 - children aged 14 and under, **and** there is no overnight supervision throughout a substantial part of the program, for example, children's day campsor
 - underprivileged individuals or people with disabilities, for example, crafts or athletic activities for individuals with disabilities at a community centre
- The supply of a recreational program is **taxable** if the above conditions are not met

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Memberships

- A supply of a membership by a charity is generally **exempt**
- However, the supply of a membership is **taxable** if the value of the following benefits is significant (generally considered to be 30% or more) in relation to the cost of the membership:
 - free or reduced admission to a place of amusement
 - the right to use facilities at a place of amusement, or
 - the right to participate in a recreational or athletic activity at a place of amusement

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Admissions

- Admission to a place of amusement where the maximum admission charged is \$1.00 or less is **exempt**
- If the maximum charge is more than \$1.00, for example, if the charity charges adults a \$5.00 admission and children a \$0.50 admission, both admissions are generally **taxable**

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Admissions (cont'd)

- Admissions to amateur performances and athletic or competitive events are **exempt** as long as 90% or more of the athletes, competitors, or performers are not paid for their participation
- In addition, the charity cannot advertise the performance or event as featuring paid professional participants
- For example, admissions to a sporting event where unpaid competitors compete for a trophy are exempt

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Games of chance

- Sales of lottery, break-open, or raffle tickets are **exempt**
- Sales of bingo cards or the taking of bets during a casino night are also **exempt**
- Lottery tickets sold for a provincial or inter-provincial lottery corporation are **taxable**, and the tax is included in the price of the tickets

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Fund-raising activities

- Fund-raising activities are **exempt** from GST/HST if:
 - they are not made on a regular or continuous basis throughout the year or a significant portion of the year, or
 - they do not entitle the recipients to receive property or services throughout the year or a significant portion of the year
- Example – chocolate bars sold only in the month of October

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Fund-raising event tickets

- Admission to a fund-raising dinner, ball, concert, or similar event is **exempt** if part of the admission qualifies as a charitable donation for income tax purposes
- Example: Tickets to a fund-raising dinner are sold for \$100 and \$75 of the ticket price qualifies as a charitable donation for income tax purposes. GST/HST will not apply to any part of the cost of the ticket

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Direct cost exemption

- Sales of certain goods and services are exempt where the total charge does not exceed the “direct cost”

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Free supplies

- Supplies of property 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

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Real Property

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Supplies of real property

- Real property generally means:
 - Buildings,
 - Office building
 - House
 - A parcel of land
- Based on the legal description of the building or land
- Generally, supplies of real property made by a public service body are exempt

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Purchases of real property by a charity

- When a charity that purchases taxable real property is registered for the GST/HST it must remit the GST/HST owing directly to the CRA
- Referred to as “self-assessment of GST/HST”.
- Reported on Form GST60 if real property is used less than 50% in commercial activities
- ITCs or PSB rebate available depending on extent of use in commercial activities

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Exempt Real Property

- Generally, most sales, leases, or other supplies of real property by a charity are **exempt** from GST/HST
- Examples include
 - Parking space rentals;
 - Facility rentals (e.g., halls for weddings);
 - Long-term residential rent; and
 - Commercial rent (such as renting out a portion of a commercial building owned by a charity)

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Taxable sales of real property by a charity - Examples

- the sale of new or substantially renovated housing;
- the sale of vacant land to an individual or a personal trust;
- the sale of real property that, immediately before the time of the sale, the charity used primarily (>50%) in its commercial activities;

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Electing to make supplies of real property taxable

Taxable sales of real property by a charity – Electing to make a supply of real property taxable

A charity can choose to treat certain exempt supplies of real property as a taxable supply by filing an election (form GST26) with the Canada Revenue Agency

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Electing to make a supply of real property taxable

- Election applies on a property-by-property basis
- Election can be made on real property held as assets, inventory, or real property acquired by the charity by lease, licence or similar arrangement for the purpose of supplying it in the same manner.
- Election form GST26
- Filed with the Canada Revenue Agency within one month after the end of the reporting period in which the election comes into effect

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Electing to make a supply of real property taxable (cont'd)

- Impact:
 - Otherwise exempt supplies of real property will generally be taxable
 - Has minimal impact on exempt supplies of residential properties (e.g., exempt long-term housing)
 - Recovery of GST/HST will change

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GST/HST Registration

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What is a GST/HST registrant?

- A “registrant” is a person who is registered, or who is required to register for GST/HST purposes



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Does a charity have to register for GST/HST purposes?

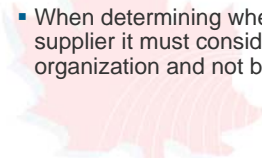
- A charity **cannot** register if it:
 - makes only exempt supplies
- A charity **may** voluntarily register if it:
 - makes taxable supplies in Canada and
 - is a small supplier
- A charity **must** register if it:
 - makes taxable supplies in Canada and
 - It is **not** a small supplier



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When is a charity a small supplier?


- A charity may qualify as small supplier under either of the two following tests:
 - The \$250,000 gross revenue test; or
 - The \$50,000 taxable supplies test
- When determining whether a charity is a small supplier it must consider its activities as a whole organization and not branch by branch



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\$250,000 gross revenue test

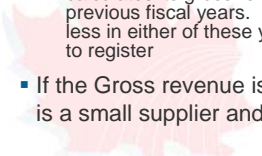
- Gross revenue is generally the total of:
 - Business income, donations, grants, gifts, property income, investment income, and any amount considered a capital gain, **less**
 - Any amount considered a capital loss from the disposal of property



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Applying the Gross Revenue Test

- The test is applied as follows:
 - If it is the charity's first fiscal year, it does not have to register for GST/HST purposes
 - If it is the charity's second fiscal year, it calculates its gross revenue from the first fiscal year. If the amount is \$250,000 or less it does not have to register, and
 - If it is neither the first nor second fiscal year, it calculates its gross revenue in each of its two previous fiscal years. If this amount is \$250,000 or less in either of these years, the charity does not have to register
- If the Gross revenue is \$250,000 or less a charity is a small supplier and does not have to register



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\$50,000 taxable supplies test

- Revenues from taxable supplies include the charity's worldwide revenues from supplies of property and services subject to GST/HST, including zero-rated supplies
- Total revenues do not include supplies of financial services, certain payments for goodwill, and sales of capital property (does include rentals of such property.)

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Applying the Taxable Supplies Test

- To determine if a charity is a small supplier under this test calculate:
 - Total revenue from taxable supplies in the current calendar quarter; and
 - Total revenue from taxable supplies in the last four calendar quarters.
- If both the above amounts are \$50,000 or less, the charity is a small supplier and does not have to register.

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Small supplier division

- Although GST/HST registration applies to the legal entity, a charity may apply to have qualifying branches or divisions designated to be small supplier divisions
- To qualify for this designation, separate accounting records must be kept for the branch or division, and either its location or its activities must be separately identifiable
- Form GST31 *Application by a Public Service Body to have Branches or Divisions Designated as Eligible Small Supplier Divisions* is filed by the head office, identifying the branch(es) or division(s) that are to be treated as small suppliers

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Impact of a small supplier division application

- \$50,000 small supplier test applies to that branch or division
- Small supplier division does not collect the GST/HST on taxable supplies (exception: taxable sales of real property)
- No input tax credits (ITCs) can be claimed by the charity or the small supplier division with respect to the GST/HST paid on eligible purchases of the small supplier division
- Instead, the head office may claim a rebate

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Obligations of a Charity that is a GST/HST registrant

- A charity that is a GST/HST registrant is generally required to:
- charge and collect the GST/HST on its taxable goods and services
 - Calculate net tax collected using the Net Tax Calculation for Charities.
 - file GST/HST returns
 - Claim a PSB Rebate for GST/HST paid or payable on eligible expenses.
 - provide specific information on invoices

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Public service body (PSB) rebate

Public service body (PSB) rebate

- All charities are eligible to claim the PSB rebate
- Not required to be registered for GST/HST purposes
- GST/HST paid on most purchases is eligible for a PSB rebate
- However, there are some exceptions. These “non-eligible” purchases include:
 - Amounts eligible for an ITC, refund, remission, or other rebate;
 - memberships in a dining, recreational or sporting club; and
 - property and services used to provide long-term residential accommodation where less than 10% of the accommodation is for seniors, youths, students, individuals with a disability, in distress, or in need of assistance, and individuals on a rent geared to income basis

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PSB rebate (cont'd)

- The PSB rebate is available on both:
 - The GST and the federal part of the HST; and
 - The provincial part of the HST in Nova Scotia, New Brunswick, Newfoundland and Labrador, Ontario and British Columbia
- The PSB rebate rate for the provincial part of the HST will depend on the charity's place of residence

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PSB rebate (cont'd)

- To claim a PSB rebate a charity must complete and submit Form GST66 *Application for GST/HST Public Service Bodies' Rebate and GST Self-government Refund*
- Up to four years to apply for the rebate

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PSB rebate of the GST/HST

	GST or Federal part of the HST	Provincial part of the HST			
		Resident in Nova Scotia	Resident in New Brunswick	Resident in Newfoundland and Labrador	Resident in Ontario (proposed)
QNPO	50%	50%	50%	50%	82%
Charity	50%	50%	50%	50%	82%
School authority	68%	68%	0%	0%	93%
Hospital Authority	83%	83%	0%	0%	87%
Public College	67%	67%	0%	0%	78%
University	67%	67%	0%	0%	78%
Municipality	100%	57.14%	57.14%	0%	78%
External Supplier	83%	50%	50%	0%	87%
Facility Operator	83%	50%	50%	0%	87%

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GST/HST recovery and remittance

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GST/HST recovery and remittance

- A charity's obligation to collect, remit and its entitlement to recover the GST/HST is dependant upon:
 - Whether the charity is a GST/HST registrant and;
 - is using the “Net Tax Calculation” for charities, or
 - has elected not to use the “Net Tax Calculation” for charities

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Charities not registered for GST/HST purposes

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Obligations and entitlements of a charity that is not registered for GST/HST purposes

- A charity that is not registered for GST/HST purposes:
 - does not collect and remit GST/HST on its sales, and
 - claims a PSB rebate
- However, a charity may be required to collect and remit the GST/HST on taxable sales of real property even if it is not registered for GST/HST purposes

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How to recover GST/HST paid on purchases

Charities that are not registered for GST/HST purposes recover a portion of the GST/HST paid on purchases by:

- Claiming a PSB rebate of:
 - 50% of the GST or federal part of the HST, and
 - The applicable rebate percentage for the provincial part of the HST

Your claim period is a six-month period covering either the first six months or the last six months of your fiscal year.

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Charities registered for GST/HST purposes that use the "Net Tax Calculation for Charities"

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Obligation to collect, remit and entitlement to recover the GST/HST

- Collect GST/HST on its taxable supplies at 5%, 12% or 13%
- Must calculate its net tax remittance using the "Net Tax Calculation for Charities"
- Claim a PSB rebate
- May file rebate claim with its GST/HST return

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"Net Tax Calculation for Charities"

- Calculate the total GST/HST collected on taxable supplies
- Remit 60% of GST/HST collected
 - **Exception:** Remit 100% of the GST/HST collected on certain supplies, such as taxable sales of capital and real property, or GST/HST collected in error
- Do not claim input tax credits (ITCs)
 - **Exception:** ITCs are available on purchases of, or improvements to, real property and capital property used primarily (>50%) in commercial activities

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Charities registered for GST/HST purposes that elected not to use the “Net Tax Calculation for Charities”

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Election not to use the “Net Tax Calculation for Charities”

- A charity may make an election **not** to use this method if:
 - It makes zero-rated supplies (e.g., basic groceries or certain medical equipment) in the ordinary course of a business;
 - It makes supplies outside Canada in the ordinary course of a business; or
 - 90% or more of its supplies are taxable supplies
- Form GST488 *Election or Revocation of an Election Not To Use the Net Tax Calculation for Charities* is used to make the election
- Must notify the CRA of the election

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Obligation to collect, remit and entitlement to recover the GST/HST

- Collect GST/HST on its taxable supplies at 5%, 12% or 13%
- Remit 100% of GST/HST collected
- Claim ITCs for the GST/HST paid or payable on inputs consumed, used or supplied to provide taxable property and services;
- Claim the PSB rebate when no ITC is available
- May file rebate claim with its GST/HST return

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Summary

	Not registered for GST/HST	Registered for GST/HST and using the net tax calculation for charities	Registered for GST/HST and elected not to use the net tax calculation for charities
Collect GST/HST		X	X
May have to collect GST/HST on taxable sales of real property	X	X	X
Must use the Net Tax Calculation for Charities		X	
May claim ITCs			X
Limited ITCs available		X	
PSB Rebate available	X	X	X

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Branches and divisions – filing separate returns and/or rebates

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Eligibility to file separate returns and rebates as a branch or division

- Available to all charities
- Conditions
 1. The branch or division has to be identifiable by either
 - its location or
 - the nature of its activities, and
 2. Separate books and records have to be kept for the branch or division
- Application form GST10 *Application or Revocation of the Authorization to File Separate GST/HST Returns and Rebate Application for Branches or Divisions*, is filed by the head office and identifies those branches or divisions that want to file separate returns and rebates

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Impact of election to file separate returns and rebates

- File separate
 - GST/HST returns
 - PSB rebates
 - Printed book rebates
 - Rebates of amounts paid in error
- These returns and rebates must be filed using the head office's
 - filing frequency, and
 - fiscal year end

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Other issues

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Other rebates

If your charity

- Operates a public lending library,
- Has a primary purpose that is the promotion of literacy,
- Exports goods or services,
- Provides certain health care supplies, or
- Provides long-term residential accommodation on a rent-geared-to income basis and receives government funding to do so

other rebates may be available

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Grants and Subsidies

- The receipt of grants and subsidies will generally not impact the tax status of a charity's supplies
- The receipt of grants and subsidies will generally not impact how a charity recovers the GST/HST paid or payable on purchases (e.g., PSB rebates or the ITCs)

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Publications

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Guides

- GST/HST Public Service Bodies Rebate (RC4034)
- GST/HST Information for Charities (RC4082)

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Info Sheets

- *GI-066 How a Charity Calculates the Net Tax to be Reported on its GST/HST Return*
- *GI-067 Basic GST/HST Guidelines for Charities*
- *GI -037 Children's Camps Operated by Public Sector Bodies*

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Other documents

- *Technical Information Bulletin B-067, Goods and Services Tax Treatment of Grants and Subsidies*
- *Policy Statement P-132, 100% Rebate for Charity Exports*

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Election forms

- *GST10 Application or Revocation of the Authorization to File Separate GST/HST Returns and Rebate Application for Branches or Divisions*
- *GST31 Application by a Public Service Body to have Branches or Divisions Designated as Eligible Small Supplier Divisions*
- *GST62 Goods and Services Tax/Harmonized Sales Tax (GST/HST) Return*
- *GST488 Election or Revocation of an Election Not To Use the Net Tax Calculation for Charities*

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**Thank you for
your time**

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