



# The HST Blog

Posted at 8:28 AM on January 2, 2014 by Cyndee Todgham Cherniak

## The ABCs of Harmonized Sales Tax

Canada's federal harmonized sales tax ("HST") is complicated - even for the practitioners who practice in the area. Here is a fun post about some of the common terms used in HST parlance.

**A = Auditors** - We hope they do not call. When they do call, we hope they do not want to come for a visit. When they come for a visit, we hope they do not stay long. We are worried about the cost of their visit.

**B = Budget** - In the federal budget, the Department of Finance often includes changes to the *Excise Tax Act* (Canada) (the HST legislation).

**C = Canada Revenue Agency** - The Canada Revenue Agency enforces laws and regulations relating to HST.

**D = Due Diligence** - You want to have documentary evidence to show that you attempted to comply with the HST laws. Directors can avoid personal liability for unremitted HST of a corporation if the director can show they took steps to prevent the corporation's failure.

**E = Exemptions** - Some supplies are exempt from GST/HST. This means that no GST/HST will be applicable. It also means that the person making the supply cannot claim certain input tax credits.

**F = Fairness** - If you could not comply with Canada's HST laws due to circumstances beyond your control (e.g., the Alberta flood 2013, the Ontario ice storm 2013), you may be able to apply for fairness.

**G = Goods and Services Tax (GST)** - GST is a component of HST. The GST rate is currently 5%.

**H = Harmonized Sales Tax (HST)** - HST is GST + PVAT and is applicable to supplies made in participating provinces. The HST rate depends upon the province in which the supply is made.

**I = Input Tax Credits** - If you are a registrant and are engaged in commercial activities, you may be entitled to claim an input tax credit to recover GST/HST paid in connection with business inputs. Individual consumers cannot claim input tax credits. Input tax credits are good (and a hot audit issue - which can be bad).

**J = Judicial Reviews** - If you disagree with the CRA (e.g., with a fairness decision), you may be able to file a judicial review to the Federal Court of Canada (which is different than an appeal to the Tax Court of Canada).

**K = Keep Records** - I cannot stress enough the importance of keeping records. Auditors, the appeals branch and the Tax Court of Canada all need records and evidence in order to agree with you.

**L = Limitation Periods** - Always know the limitation period. Missing a limitation can cost you money or the right to object to or appeal a decision.

**M = Misrepresentations** - A simple mistake can be considered to be a misrepresentation. If a person makes a misrepresentation attributable to neglect, carelessness or willful default, the Canada Revenue Agency may assess beyond the 4 year limitation period.

**N = Non-residents** = Persons outside Canada who may need to know about and comply with Canada's HST laws.

**O = Objections** - If you disagree with an assessment made by a CRA auditor, you must file a Notice of Objection within 90 days after the Notice of (Re)Assessment.

**P = Participating Province** - Canadian provinces that have adopted the HST are called participating provinces. British Columbia, Alberta, Saskatchewan and Manitoba are not participating provinces.

**R = Registrants** - Registrants are persons who are registered for GST/HST purposes or are required to be registered.

**S = Supply** - A supply is the provision that is subject to GST/HST. Since not all transactions are "sales", the term used is "supply". A barter transaction and supplies for no consideration are still supplies for GST/HST purposes.

**T = Tax Court of Canada** - Appeals of CRA decisions concerning objections are filed with the Tax Court of Canada, which is a specialized court.

**U = Underground economy** - Many businesses do not register for GST/HST purposes and participate in the underground economy. Small suppliers are not required to register for GST/HST purposes. If a consumer hires a contractor and pays the contractor under the table in order to save the HST, they are contributing to the underground economy - which is bad.

**V = Voluntary Disclosures** - If a business makes a mistake, it may make a voluntary disclosure to correct the mistake. Usually, the CRA requires the HST and interest to be paid - but will waive the penalty.

**W = Written Ruling** - If you are unsure about the application of the HST legislation to a particular situation, you can write to the CRA for a written ruling. A written ruling may be binding if it is an advance ruling and not an interpretation. In order to obtain a written ruling, it is necessary to provide the CRA with the facts.

**X = X-director** = A person who was a director of a corporation and ceased to be a director may be held personally liable for the GST/HST liability of the corporation up to 2 years after the person ceased to be a director of the corporation.

**Y = Year-End** - Most registrants have a calendar year end (but not all). Businesses may have to self assess GST/HST in connection with year-end adjustments (it all depends).

**Z = Zero-rated** - Certain supplies are zero rated. This means that the supply is subject to GST/HST at the rate of 0%. The supplier should be entitled to claim input tax credits.

**Comments (0)** Read through and enter the discussion with the form at the end

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