



How Does the GST-HST Work?

How Does the GST-HST Work?

By: Joe the Investor
Fee-Only Financial Planner

The GST is the acronym for the Goods and Services Tax. It is a sales or transaction tax when goods are bought and sold. The name tells you what this would apply to everything that is traded including services. The GST is the federal version of this tax. There is also a provincial version called the PST – Provincial Sales Tax. Each province and territory in Canada can charge this tax – but Alberta and the territories of Canada do not. Should the GST and PST be charged once and the proceeds divided federally and provincially, this is called the HST – Harmonized Sales Tax. Harmonizing refers to the federal and provincial taxes being charged as one tax by the federal government.

History

Prior to the GST, there were taxes charged on goods that were manufactured. The services industry in Canada was much smaller than it is today, and manufacturing dominated the economy. This tax was also buried in the price in the goods and was paid by the manufacturers. The final consumer did not see this tax – much like excise taxes on tobacco and gasoline that still exist today. As the economy was shifting towards services in the 1980's, the GST was brought in to tax a broader range of items at a lower rate. This also meant that the tax revenue overall would be increased.

GST/HST Applies to New Items

The GST and HST is generally charged on new items produced in the economy. This is why resale homes, used cars and second hand items are not charged HST. There is a risk that items sold frequently could be taxed repeatedly on the same transactions. Although the tax revenue might be higher in the short term, the distortion in the economy would also be high as resale items would get much more expensive and transactions in general would be less. Items that are deemed to be necessary for living are not charged GST/HST. This would include food bought in grocery stores. Food prepared in a restaurant is generally charged GST/HST as this would be considered unnecessary. Buying food in bulk is typically exempted versus buying individual servings for this reason. There are also specific items that are exempted from GST/HST like mortgages and insurance.

The Consumer Pays GST/HST

Many goods are manufactured in stages. Typically there is the material extraction stage done through mines or wells. This material is passed on to a fabricator who turns the material into a form suitable for manufacturing. A product is manufactured and it may go through different processes before it finally gets sold to the final consumer. The GST/HST is charged at every transaction, but it would be refunded back to whoever paid it unless the person paying the GST/HST is the final consumer. This avoids taxation of the same item many times over at every stage of the manufacturing process. Services may undergo multiple stages as well if they are provided to businesses in stages over before being given to a consumer. A business that manufactures something and sells it to another business would pay the GST/HST and then apply to have it refunded. When the business fills out its GST/HST form, it would put down the sales tax paid as an "Input Tax Credit" or ITC. This would effectively lower the GST/HST it is paying and the net result would be what the company pays to the government.

Small Supplier Exemption

Since keeping track of these taxes can be time consuming, the government has allowed smaller businesses or "Small Suppliers" to avoid having to keep track of GST/HST. On \$30,000 worth of sales or less, the GST/HST does not have to be filed unless you have registered to do so. The registration rules follow in the next paragraph. On \$30,000 worth of sales, this would amount to \$3,900 worth of GST/HST excluding expenses and assuming the Ontario rate. Most small businesses have expenses, and some provinces have a lower sales tax rate.

Registration Rules

If you have gross sales of \$30,000 or less as a business, you would not have to register to collect GST/HST. Once you reach this threshold, you will be required by the CRA to make this registration. If you do not, you will be deemed to owe the taxes using your gross sales including the GST/HST owing. The amount of the GST/HST would be backed out from your sales as if you had been charging the sales tax and not paid it. If you have sales under \$30,000 per year and have registered voluntarily, you must still collect and file the GST/HST even though your sales are under the threshold.

Process For Businesses

If you have registered to collect GST/HST, you would have to track all of the sales you make with the sales tax as part of the price. If it is listed separately, you would add up all of the GST/HST collected in a given period. For most businesses, the period would be one year. If your business has a large amount of gross sales, the frequency will be get larger – it can become quarterly or monthly. The CRA would inform you when these thresholds get crossed. You would fill out a GST/HST return indicating your gross sales, GST/HST collected and Input Tax Credits. The Input Tax Credits are GST/HST paid on your expenses which would then be deducted from the GST/HST collected. There would be a net result which is either positive (you would remit the difference to the government) or negative (you would claim a refund from the CRA). This would be done each period even if there are no sales or no sales taxes collected. You would

have to file until you cancel the registration due to closing the business, selling the business, declaring bankruptcy and so on.

Sources:

- 1) <http://www.cra-arc.gc.ca/gsthst/>

Contact me, Joe Barbieri by email at joetheinvestor.today@gmail.com, or by telephone at 647-286-8020 for an independent consultation on what your options are. **Note: This site is intended for people who want to learn about the world of investments and how to research for themselves. If you would like to buy or sell investment products, or specific advice on investment products, tax or legal issues, please consult your investment advisor, accountant or legal counsel.**