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GST/HST tips and traps: charities and not-for-profit organizations

Charities and not-for-profit organizations (NPOs) enjoy “special” status when it comes to the application of GST/HST. This value-added tax is likely the only tax that significantly impacts this sector of the economy.

Unfortunately, the rules for these organizations are so complex that administering the tax has become a nightmare for many, particularly when staffed by volunteers with little exposure to these complicated rules.

There is a general presumption that revenues earned by charities and NPOs are exempt and while there are many exemptions, there are also an abundance of intricate exclusions that often get overlooked and this is what we are seeing on Canada Revenue Agency (CRA) tax audits.

It should be noted that charities and NPOs are treated differently for the purposes of GST/HST. An example would be where an NPO may have to charge tax on a service that a charity providing the same service may not be required to charge. So, while we note some recent CRA audit areas, our experience shows that there is no one rule that fits all and your particular situation requires its own review to determine the tax application. The revenue examples noted below can be either taxable or exempt depending on your organization’s situation.

So, what are we seeing in recent CRA audits that are potentially taxable?

- Property sold in gift shops
- Admissions to places of amusement
- Memberships
- Sponsorships and grants
- Recreational programs and camps
- Real estate sales, leases or licenses

Registration and recovery of tax

Many charities and NPOs qualify as small suppliers and are not required to register for GST/HST. Relief is provided by allowing charities to claim rebates to recover a portion of the tax. The rebate is available to all charities, even if not registered. NPOs only qualify for the rebates when they receive at least 40% of their funding from governments. When the organization has a presence in more than one province, the rebates vary by province and can be quite complicated to administer.

Where organizations are registered, they may be in a position to claim input tax credits to recover tax on those expenses incurred to earn revenue on which they charge tax. If an NPO has revenues that are both taxable and exempt, they must apportion their expenses and related tax as the organization is restricted from claiming tax back on expenses incurred to earn exempt revenue. Most charities are under a mandatory reporting requirement which means reporting only 60% of their tax collected and, for the most part, are not allowed or have

limited opportunities to claim input tax credits. Even when registered, rebates are still available to the charity or qualifying NPO for those amounts not claimed as an input tax credit.

Is it time for a check-up?

In the same way a medical check-up is always prudent, it pays to have a periodic review of your tax, especially with the numerous changes to the GST/HST legislation and CRA's administrative policies and practices.

Recently, we have seen charities not using the mandatory reporting rules and remitting too much tax or claiming ITCs in error. We have also seen NPOs recapturing their ITCs and limiting the recoveries they are entitled to.

Keeping track of the complex changes and developments in GST/HST is challenging enough, but when you are a charity or NPO, the challenge is even greater. Often it requires the skills and knowledge of experienced professionals.

The dedicated sales tax practitioners at Grant Thornton LLP can be relied upon to provide up-to-date advice and strategic planning with sound, practical solutions to address your sales tax needs and provide assistance in dealing with the tax authorities.



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