


BY THE BOOKS



Enhancing Sound Financial Management in the Community Sector

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Webinar Wednesday!

Navigating HST in a Nonprofit Organization



Presented by:
Shelley Martin, CPA, CA
Project Co-Coordinator, **BY THE BOOKS**

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Upcoming *BY THE BOOKS* Sessions

Webinar Wednesdays!

The Do's and Don'ts of Charitable Receipting (WEBINAR)
Wed 29 Nov 2017 11:00am – 12:00pm

Accounting Software – Do We Need It? (WEBINAR)
Wed 13 Dec 2017 11:00am - 12:00pm

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Upcoming *BY THE BOOKS* Sessions

In-Person Sessions

Operating Budgets and Cash Flows – Do You Use Them?
Tues 5 Dec 2017 10:00am – 12:00pm CSC NL Boardroom

<http://communitysector.nl.ca/events>

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Definitions

Non-Profit Organization (NPO) – A person (other than an individual, estate, trust, charity, public institution, municipality or government) that meets the following conditions:

- Is organized solely for non-profit purposes
- Does not distribute (or make available) any of its income for the personal benefit of any proprietor, member or shareholder, unless that proprietor, member or shareholder is a club, society or association with the primary purpose of promoting amateur athletics in Canada

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Newfoundland and Labrador

Definitions

Charity – a registered charity or registered Canadian amateur athletic association for income tax purposes, not including a public institution

- Public institution - municipalities, universities, public colleges, school authorities, hospitals

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Definitions


Supply – the provision of property or service in any way, including sale, transfer, barter, exchange, license, rental, lease, gift or disposition

Taxable supplies – supplies of property and services that are made in the course of a commercial activity and are subject to HST (including zero-rated supplies)

Zero-rated supplies – supplies of property and services that are taxable at a rate of 0%

Exempt supplies – supplies of property and services that are not subject to HST

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Definitions

Input Tax Credit (ITC) – a credit that HST registrants can generally claim to recover HST paid or payable for property or services they acquired

Public Service Bodies' (PSB) Rebate – a special rebate that allows certain public service bodies, including charities, to recover a percentage of HST paid or payable on eligible purchases and expenses


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Definitions

Qualifying Non-Profit Organization (QNPO) – a non-profit organization or prescribed government organization whose percentage of government funding is at least 40% of its total revenue

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Does My Organization Have to Register for Harmonized Sales Tax?

Have to register if:

1. You provide *taxable* activities in Canada; **and**
2. You are not a *Small Supplier*

- Generally charge and collect HST on *taxable* activities made in Canada
- Generally claim Input Tax Credits (ITCs) to recover HST paid on purchases and expenses consumed/used/supplied

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Small Suppliers

- Do not have to charge HST on *taxable* activities
- Do not claim ITCs on purchases or expenses used/consumed/supplied
- May qualify for a *Public Service Bodies'* (PSB) rebate

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Small Suppliers

NPO

- Total amount of all revenues from worldwide *taxable* supplies is \$50,000 or less in each of 1) any single calendar quarter **and** 2) in the last four consecutive calendar quarters
- Can apply to have branches or divisions treated individually (Form GST31)

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Small Suppliers


Charity

Determined by the following tests:

1. Gross revenue is \$250,000 or less in either of the prior 2 fiscal years; **or**
2. Total revenue from *taxable* supplies in 1) the current calendar quarter **and** 2) the preceding 4 calendar quarters are \$50,000 or less
 - Only do test 2 if you are not a small supplier as a result of test 1
 - Includes sales from *zero-rated* supplies

- Can apply to have branches or divisions treated individually (Form GST31)

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Registering for HST

- **Online** through Business Registration Online (BRO)
- **Mail** completed Form RC1 *Request for a Business Number*
- By telephone **1-800-959-5525**
 - Be ready to answer questions from the form above


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Registering for HST

- Charities and NPOs that are *Small Suppliers* can still choose to register voluntarily
- Have to stay registered for at least 1 year before you can ask to cancel registration
- **CANNOT** register for HST if you perform only *exempt* supplies

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Taxable vs Exempt

Taxable supplies are those on which HST should be charged

- Zero-rated supplies are taxable at a rate of 0%.
- Can claim ITCs paid on related expenditures

Exempt supplies are those for which HST is not applicable (and thus is not charged)

- Cannot claim ITCs paid on related expenditures

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Taxable Supplies (Other Than Zero-Rated)


Most property and services supplied in Canada are considered *taxable* supplies and are subject to HST, including:

- Registration for conferences, seminars and trade shows
- Books and subscriptions to magazines and newsletters
- Advertising services
- Short-term rental accommodation (of less than 1 month)
- Club memberships, where main purpose is to provide recreational, dining or sporting facilities to members



Taxable Supplies - Zero-rated


- HST applies at a rate of 0%
 - No HST charged on these sales
 - May be able to claim ITCs on purchases/expenses incurred to provide these supplies
- Includes providing:
 - Prescription drugs and medical devices
 - Basic groceries (milk, bread, vegetables)
 - Exports

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Exempt Supplies

- Includes providing:
 - Educational services
 - Most health/medical/dental performed for medical reasons
 - Music lessons
 - Child care services to children 14 years or younger for periods of less than 24 hours per day
 - Long-term rentals of one month or more

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Exemptions for NPOs and Charities

Admissions

- To places of amusement, such as museums, theatres and parks, where maximum amount charged is **\$1 or less**
- To a performance, athletic or competitive event where 90% or more of performers/athletes are not paid

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Exemptions for NPOs and Charities

Free Supplies

Supplies of property and services when 90% or more are provided free of charge

- Does not apply to supply of blood (zero-rated)

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Exemptions for NPOs and Charities

Fund-Raising Activities

Sales of goods and services (except alcohol and tobacco) are exempt when **all** of the following are met:

1. Not normal course of business
2. All salespersons are volunteers
3. Sale price of each item is **\$5 or less**
4. Goods are not sold at an event where similar goods are sold by persons in the business of selling such goods

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Exemptions for NPOs and Charities


Gambling Events

Admissions – exempt if:

- Volunteers run event and take bets
- Event is not held in commercial hall or temporary structure used mainly for gambling activities

Right to Play (lottery, break-open or raffle tickets)

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Exemptions for NPOs and Charities

Direct Costs

Exempt if selling price of the item is **equal to or less than the *direct cost*** of item

- Direct cost can include HST paid when acquiring the item
 - Cannot include cost to recover administrative or overhead expenses or salaries
- If recovering only direct cost, can choose to charge HST; if no HST charged, sales are exempt

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Exemptions for NPOs and Charities


Direct Costs

Example

Purchase a t-shirt for \$10 plus 15% HST = \$11.50, with intent to resell the t-shirt and recover direct costs.

1. Sell t-shirt for \$10 plus 15% HST = \$11.50
 - Charge and remit \$1.50 HST to CRA
 - Claim \$1.50 ITC on purchase of t-shirt
 - Net HST payable/receivable = \$0

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Exemptions for NPOs and Charities


Direct Costs

Example

Purchase a t-shirt for \$10 plus 15% HST = \$11.50, with intent to resell the t-shirt and recover direct costs.

2. Sell t-shirt for \$11.50 (not charge HST)
 - No HST collected (none to remit to CRA)
 - No ITCs claimed on purchase of t-shirt
 - Net HST payable/receivable = \$0

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Exemptions for NPOs and Charities


Direct Costs

Example

Purchase a t-shirt for \$10 plus 15% HST = \$11.50, with intent to resell the t-shirt and recover direct costs.

3. Sell t-shirt for any amount less than \$10 (with or without HST)
 - Tax exempt sale as recovering less than the direct cost
 - Any HST charged on sale would be in error

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Exemptions for NPOs and Charities

Memberships

Exempt if allows for the following (but nothing more):

- An indirect benefit that is intended to accrue to all members
- The right to receive services in nature of investigating, conciliating or settling complaints or disputes involving members
- The right to vote or participate in meetings
- The right to receive/acquire property/services for an additional fee, at fair market value
- The right to receive a discount for property/services when **total of all discounts available is less than 30%** of membership fee
- The right to receive periodic newsletters/reports etc. if **value of such publications are less than 30%** of membership fee

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Exemptions for NPOs and Charities

Memberships for Recreational Programs

Exempt if

- Consist of supervised instructional classes or activities involving athletics, outdoor recreation, music, dance, crafts, arts, hobbies etc. **and**
 - Provided primarily to children 14 years of age or under and does not involve overnight supervision; **or**
 - Provided primarily to individuals who are underprivileged or have a disability

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Exemptions for NPOs and Charities

Relief of Poverty, Suffering or Distress

- Supply of food and beverages (that are not fundraising) or short-term accommodation
 - i.e. meals or accommodation at a shelter
- Supply of prepared meals from an individual's home
 - i.e. meals on wheels
- Sale of food and beverages by a person to a non-profit organization operating such a program


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Exemptions for NPOs and Charities

- Donations of money and property, where donor does not receive any benefit in return (or nominal benefit)
- Grants and subsidies, where there is no direct link between payment you received and supply you provide to grantor
- Sponsorships to fund activities


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HST Charged on Taxable Supplies

- Must charge HST on *taxable* supplies if you are not a small supplier
- NPOs – remit 100% HST charged on *taxable* activities
- Charities use special net tax calculation and remit only 60% of HST charged on *taxable* activities

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Input Tax Credits (ITCs) - NPOs

- Can claim ITCs paid or payable on purchases or expenses related to *taxable* supplies IF YOU ARE A NON-PROFIT REGISTRANT
- **Cannot** claim ITCs when:
 - Property/services used for *exempt* activities
 - Property/services bought for personal consumption/use/enjoyment

Did you know you have up to 4 years to claim your ITCs?

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ITCs - NPOs

- If property/services are acquired partly for use in *taxable* activities and partly for use in *exempt* activities, you must apportion the ITCs accordingly
 - Applies to general operating and overhead expenses (i.e. utilities, rent, photocopiers, paper, pens etc.
 - Claim 100% of ITCs **on portion of expenses used for *taxable* activities**
 - May qualify for PSB rebate for *exempt* portion

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ITCs – NPOs (Example)

Your non-profit organization promotes arts in your community. You have 2 main activities; a craft shop (selling arts and crafts) and art lessons to children 14 years of age and younger.

Although you are a small supplier, you have chosen to register for HST.


Revenues	Amounts	HST
Sale of arts and crafts (commercial activity)	\$ 30,000	\$ 4,500
Art lessons to children (exempt activity)	\$ 10,000	0
Total	\$ 40,000	\$ 4,500
Expenses		
Supplies for art lessons	\$ 1,000	\$ 150
Merchandise for resale	\$ 20,000	\$ 3,000
Utilities	\$ 1,500	\$ 225
Office supplies	\$ 500	\$ 75
Rent	\$ 7,000	\$ 1,050
Total	\$ 30,000	\$ 4,500



ITCs – NPOs (Example)

- Supplies for art lessons are related to *exempt* activity; cannot claim the \$150 HST paid as ITCs.
- Merchandise for resale is *taxable* activity; claim \$3,000 ITCs.
- Utilities, office supplies and rent (general operating expenses) are related to both *exempt* and *taxable* activities

Revenues	Amounts	HST
Sale of arts and crafts (commercial activity)	\$ 30,000	\$ 4,500
Art lessons to children (exempt activity)	\$ 10,000	0
Total	\$ 40,000	\$ 4,500
Expenses		
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Utilities	\$ 1,500	\$ 225
Office supplies	\$ 500	\$ 75
Rent	\$ 7,000	\$ 1,050
Total	\$ 30,000	\$ 4,500

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ITCs – NPOs (Example)

- *Exempt* activities:
 $\$10,000 / \$40,000 = 25\%$
- *Taxable* activities:
 $\$30,000 / \$40,000 = 75\%$


Therefore, can claim 75% of ITCs on general operating expenses.

Utilities	\$ 225	×	75% =	\$ 168.75
Office supplies	\$ 75	×	75% =	\$ 56.25
Rent	\$ 1,050	×	75% =	\$ 787.50
Merchandise for resale	\$ 3,000	×	100% =	<u>\$3,000.00</u>
Total ITCs claimed				\$4,012.50

Revenues	Amounts	HST
Sale of arts and crafts (commercial activity).....	\$ 30,000	\$ 4,500
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Total	\$ 40,000	\$ 4,500

Expenses		
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Utilities	\$ 1,500	\$ 225
Office supplies	\$ 500	\$ 75
Rent	<u>\$ 7,000</u>	<u>\$ 1,050</u>
Total	\$ 30,000	\$ 4,500

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ITCs – NPOs – Capital Property

- Capital personal property – computers, photocopiers, office furniture, equipment, machinery etc.
- Capital real property – land and buildings

Primary Use rule:

- If capital property used more than 50% for taxable activities, claim full ITC
 - if used 50% or less, no ITC claimed (but still may be eligible for PSB rebate)


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ITCs NPOs – Other Items to Note

- Cannot claim ITCs for HST paid on memberships to fitness clubs, golf clubs etc.
- The 15% provincial tax paid on insurance is NOT HST
 - Cannot claim this amount as an ITC
- If invoice received from a supplier does not detail an amount for HST charged, cannot assume HST was charged
 - Should not claim an ITC

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ITCs - Charities

- Charities use a special net tax calculation to determine a net HST payable or refund
- As a result, charities do not claim ITCs on general purchases and expenses and would only claim ITCs on specific items
 - i.e. purchase of or improvements to capital/real property
- A charity can recover some HST paid or payable through the PSB rebate

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Public Service Bodies' (PSB) Rebate

- In Newfoundland, can claim 50% of HST paid or payable on purchases or expenses for which no ITCs were claimed
- All charities qualify for the PSB rebate
- Only QNPOs can get this rebate
- Do not have to be an HST registrant to qualify
 - Small suppliers can still qualify
 - Organizations that only provide *exempt* supplies can qualify



PSB Rebate - NPOs

Qualifying Non-profit Organization (QNPO)

- Percentage of government funding for the fiscal year, or for the previous two fiscal years, is at least 40% of total revenue
- Complete and file Form GST523-1 *Non-Profit Organizations – Government Funding* annually



PSB Rebate – HST Registrants


An organization can be an HST registrant AND qualify for the PSB rebate

- As a *non-profit* registrant, ITCs can be claimed relating to *taxable* activities
- As a *charity* registrant, ITCs can be claimed in specific situations only
- PSB rebate may be claimed on the HST paid on purchases/expenses for which the organization could not claim ITCs



PSB Rebate - Filing


- When completing claim forms, will have to show the federal and provincial portions separately
- CRA suggests you record the GST and PST on purchases separately
- Can pro-rate ITCs if most purchases/expenses incurred 15% HST
 - Total ITCs eligible for rebate x $5/15$ = federal portion
 - Total ITCs eligible for rebate x $10/15$ = provincial portion

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PSB Rebate - Filing

- Federal portion – complete Form GST66 *Application for GST/HST Public Service Bodies' Rebate and GST Self Government Refund*
- Provincial portion – complete Form RC7066-SCH *Provincial Schedule – GST/HST Public Service Bodies' Rebate*


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Summary

- Must register for HST if provide *taxable* supplies and do not qualify as a *small supplier*
- NPOs
 - Charge HST on *taxable* activities and remit 100%
 - Claim ITCs on purchases or expenses related to *taxable* activities
 - MAY qualify for the PSB rebate
- Charities
 - Use special net tax calculation to determine HST payable/refund
 - Charge HST on *taxable* activities and remit 60%
 - Only claim ITCs in specific situations
 - Claim PSB rebate

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Summary

- If qualify as a *small supplier*, can still opt to register for HST
- If all property/services provided are *exempt*, cannot apply for HST
- Never claim ITCs paid for memberships to fitness/golf clubs, etc.
- 15% tax on insurance is NOT HST and therefore CANNOT be claimed


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Resources

- ✓ Business Registration Online
<https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/registering-your-business/business-registration-online-overview.html>
- ✓ Form RC1 *Request for a Business Number*
<https://www.canada.ca/content/dam/cra-arc/migration/cra-arc/E/pbg/tf/rc1/rc1-fill-17e.pdf>
- ✓ Form GST31 *Application by a Public Service Body to Have Branches or Divisions Designated As Eligible Small Supplier Divisions*
<https://www.canada.ca/content/dam/cra-arc/migration/cra-arc/E/pbg/gf/gst31/gst31-fill-17e.pdf>


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Resources

- ✓ GI-067 *Basic GST/HST Guidelines for Charities*
<https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/gi-067/basic-gst-hst-guidelines-charities.html>
- ✓ GI-066 *How a Charity Completes Its GST/HST Return*
<https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/gi-066/a-charity-completes-gst-hst-return.html>
- ✓ GST 66 *Application for GST/HST Public Service Bodies' Rebate and GST Self Government Refund*
<https://www.canada.ca/content/dam/cra-arc/migration/cra-arc/E/pbg/gf/gst66/gst66-fill-13e.pdf>



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Resources

- ✓ RC7066-SCH *Provincial Schedule – GST HST Public Service Bodies' Rebate*
<https://www.canada.ca/content/dam/cra-arc/migration/cra-arc/E/pbg/tf/rc7066-sch/rc7066-sch-fill-17e.pdf>
- ✓ RC4034 *GST HST Public Service Bodies' Rebate*
<https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/rc4034/rc4034-gst-hst-public-service-bodies-rebate.html?wbdisable=true#GDFY>

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EVALUATION

Excellent

Good

Average

Poor

Please complete the feedback form provided.

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THANK-YOU!

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25 Anderson Avenue, St. John's NL A1B 3E4

Shelley Martin
shelleymartin@cscnl.ca

Darlene Scott
darlenescott@cscnl.ca

709 753 9860
Toll free: 1 866 753 9860
www.communitysector.nl.ca

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