CHAPTER 22

AN OVERVIEW OF GST/HST

Review Questions

1. Who is required to register for GST/HST?

2. Explain the flow-through nature of the GST/HST system.

3. What are input tax credits and what are some of the limitations placed upon them? Why is it important to keep proper documentation to support input tax credits claimed?

4. What is a small supplier and what are the implications of losing small supplier status?

5. What are the similarities and differences between zero-rated supplies and exempt supplies? List some examples for each of these.

6. Jill Rossi is a registrant and performed some consulting work for a US company from her home office in Fredericton, New Brunswick. She is not sure whether she needs to charge HST or if she can claim input tax credits on related expenses. What advice do you have for Jill?

7. In what situations would a registrant not be eligible to elect for the quick method of accounting for GST/HST? How can a business "profit" by using the quick method?

8. "Employers carry on commercial activity while employees do not. Therefore, there are no GST/HST implications to an employee with respect to their employment income". Is this statement true? Briefly explain why or why not.

9. Describe two instances where a person would be required to self-assess GST/HST.

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Solutions to Review Questions

R22-1 Every person who provides taxable supplies in Canada (including zero-rated supplies) and is not a "small supplier" must register a GST/HST account and charge, collect and remit GST/HST.

R22-2 Although businesses are involved in the GST/HST process by collecting, paying, and remitting tax, businesses are generally entitled to claim back any GST/HST they pay on their expenses in the form of input tax credits. As a result, businesses merely act as a conduit passing the tax on to the ultimate consumer.

R22-3 Input tax credits (ITCs) allow GST/HST registrants to recover the GST/HST paid on expenses used in their businesses. Some of the limitations placed on input tax credits are very similar to limitations imposed on deductions against income under the Income Tax Act. For example, meals and entertainment are entitled to a 50% ITC and all ITCs must be reasonable in the circumstances. Other limitations are specific to GST/HST rules, such as the fact that most ITCs cannot be claimed on expenses incurred prior to GST/HST registration (with the exception of ITCs with respect to inventory, capital property, and certain prepaid expenses).

Proper documentation (e.g., a supplier's invoice) is required in order to claim ITCs. CRA frequently reviews ITCs to ensure the integrity of the GST/HST system and they will deny ITCs that fail to meet the proper documentation requirements.

R22-4 A small supplier is a person who provides taxable supplies (including zero rated supplies) of $30,000 or less. Small suppliers are not required to register for GST/HST or charge and remit GST/HST on their taxable supplies. They are also not entitled to claim input tax credits on their business expenses. Small supplier status is lost when either:

i. Taxable supplies exceed $30,000 in a single calendar quarter; or
ii. Taxable supplies exceed $30,000 in the past four calendar quarters.

When small supplier status is lost, the person must register for GST/HST. Small suppliers also have the option to register early at any time.

R22-5 Think of a GST/HST return as having a collection side and an expense side. On the collection side, zero-rated and exempt supplies both result in no GST/HST being collected from customers. On the expense side, zero-rated and exempt supplies are very different. Suppliers of zero-rated supplies are entitled to recover GST/HST paid on expenses as input tax credits. Suppliers of exempt supplies are not entitled to claim any input tax credits on expenses that relate to their exempt activity.

Examples of zero-rated supplies:

- Basic groceries
- Agricultural products
- Prescription drugs
- Medical devices

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- Most exported goods and services

Examples of exempt supplies:

- Sales of used residential property
- Most healthcare and dental services performed by a medical practitioner
- Financial services
- Many types of insurance
- Most educational services
- Residential rent, provided the term is for one month or longer

R22-6 In general, the place of supply for a service is where the customer is located, not where the service is performed. Although there are exceptions to this rule, none would be applicable in Jill's case. Since Jill is providing consulting services to a US entity (i.e., a non-resident person) located outside Canada, this would be considered an export of a service even though the work is performed in Canada. The exported service would be a zero-rated supply, so Jill does not need to charge GST/HST to this customer. Since this is a zero-rated service as opposed to an exempt service, Jill will be entitled to claim input tax credits on related expenses.

R22-7 Under the quick method, GST/HST is remitted to CRA using a percentage called the remittance rate that is dependent on what type of supply is made (i.e., goods or services) as well as the province the supply is made in. The remittance rate is meant to approximate the amount of GST/HST that would be leftover after accounting for GST/HST paid on related expenses. Most input tax credits are denied under the quick method as a result. Since the remittance rates are just estimates, businesses with higher expenses could end up being worse off using the quick method since the actual GST/HST paid on expenses could be a lot higher. On the other hand, businesses with very little expenses can end up profiting since they will remit less GST/HST under the quick method than they would have if they claimed input tax credits instead.

R22-8 The statement is not true because there can still be GST/HST implications to earning employment income. For instance, some taxable employment benefits are subject to GST/HST which increases the amount of employment income to the employee. Employees may also be entitled to a rebate of the GST/HST paid on employment related expenses.

R22-9 A person would be required to self-assess GST/HST if he or she imports goods or services into Canada. As a rule of thumb, if the same good or service would have been subject to GST/HST if it had been acquired from a supplier in Canada, then that good or service should be subject to self-assessment when imported. A person would also be required to self-assess GST/HST if he or she is a registrant and the recipient (i.e., purchaser) of a taxable sale of real property is for use in a business. This prevents the purchaser from being required to pay the GST/HST at the time of closing which helps from a cash-flow perspective since the purchaser may also be entitled to claim an offsetting input tax credit.

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Key Concept Questions

Question One

Duncan Bostock is a sole proprietor in his first year of operations. The following table summarizes his taxable supplies for the current year:

Quarter	**Taxable supplies**
January to March	$5,000
April to June	$11,000
July to September	$19,000
October to December	$14,000

(a) When is Duncan required to register for GST/HST?

(b) How would your answer change if Duncan had an additional $20,000 of taxable supplies on June 30?

CPA Competency 6.7.2 GST obligations of a person.

Question Two

Veridian Inc. carries on commercial activity in Ontario, a province with a 13% HST rate. Veridian files its GST/HST returns monthly and all its revenues consist of taxable supplies. Last month the company incurred the following expenditures (excluding any applicable HST):

Description	**Expenditure**
Office rent	$15,000
Purchases of inventory	$20,000
Insurance premiums	$1,000
Meals and entertainment	$4,500
Interest expense	$5,000
Green fees at local golf course	$7,000
Bad debt expense on accounts receivable	$8,000

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Analyze each expenditure and determine the maximum amount allowable as an Input Tax Credit (ITC).

CPA Competency 6.7.3 GST net tax calculations for a person

Question Three

Dee Ltd. Is a Canadian company carrying on a clothing wholesale business. For the current year, its financial results (excluding GST/HST) are as follows:

Revenue:	Sales to 5% GST provinces	$400,000
	Sales to 15% HST province	100,000
	Exports	30,000
Expenses:	Salaries and wages	50,000
	Operating costs	40,000
	Commercial Rent	30,000
	Amortization	$3,000

All expenses were incurred in Alberta, where the GST is 5%. Office equipment was acquired during the year at a cost of $24,000 plus GST. This expense is being amortized for accounting purposes over the asset's 8-year useful life.

Determine Dee Ltd.'s GST owing or refund for the year.

CPA Competency 6.7.3 GST Net tax calculations for a person.

Question Four

Lori Ramos operates a small retail kiosk in a mall located in Vancouver, British Columbia. She has opted to use the quick method for preparing her GST returns. Her financial results for her latest reporting period (excluding 5% GST) are as follows:

Sales	$200,000
Inventory purchases	70,000
Employee salaries	23,000
Interest on line of credit	15,000
Rent	18,000
Leasehold improvements	12,000

Determine Lori's GST owing or refund for the year using the quick method. The remittance rate is 1.8%.

CPA Competency 6.7.3 GST Net tax calculations for a person

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Question Five

Lisa Beil began carrying on her business in a GST province on July 1, 2020 and has a calendar fiscal year end. Lisa registered for annual GST filing on May 1, 2021. Today is April 30, 2022, and Lisa just realized she was required to charge GST as of February 1, 2021 since her taxable supplies exceeded $30,000 under the cumulative sales test during December 2020. Lisa billed customers $15,000 exclusive of any applicable GST between February 1 and April 30, 2021.

Advise Lisa on what she should do to correct her situation.

CPA Competency 6.7.2 GST obligations of a person

Question Six

Determine whether each of the following is a taxable supply, zero-rated supply, or exempt supply.

a) A clothing store sells a pair of jeans to a customer.
b) Jesse Robins provides consulting services to a large US private company in Delaware. The services are performed in the United States.
c) Same situation as (b), except the services are performed at Jesse's office in Ontario.
d) A pharmacy sells a prescription drug to an individual.
e) Syed Mellor purchases a newly constructed cottage in Ontario for personal use.
f) A Canadian bank charges a monthly service fee for the use of a chequing account.
g) Jacob Stubbs sells a used piece of commercial real property situated in British Columbia to a non-resident located outside of Canada.

CPA Competency 6.7.1 GST system in Canada

Question Seven

Fine Furnishings Canada Inc. (FFC) is a manufacturer of hand-crafted wood furniture. The company has decided to discontinue its line of outdoor patio furniture and picnic tables. FFC is planning to sell off various assets relating to these product lines to Cottage Living Corporation (CLC). The sale includes the following:

a) Remaining inventory which will be shipped from FFC's warehouse in British Columbia to CLC's warehouse in Ontario. FFC will be required to arrange transport at its own expense and provide adequate insurance coverage for the goods while they are in transit.

b) FFC uses a proprietary lacquer formula in its manufacturing process that improves the water resistance and shine of its outdoor furniture lines. FFC will sell CLC the

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exclusive Canadian rights to use this process.

c) FFC's customer support center in Nova Scotia will continue to answer calls and emails from customers on assembly enquiries, missing parts, product information, and warranty claims for one year after the closing date of the sale. FFC will charge CLC a monthly fee for this service.

FFC will bill CLC's head office in Alberta for each of the above items. The assets sold do not represent substantially all of the assets needed to run the furniture manufacturing business.

For each transaction, determine the place of supply.

CPA Competency 6.7.2 GST obligations of a person

Question Eight

Dan Kim uses a popular ride sharing app to earn some extra income on evenings and weekends by driving others around downtown Toronto. Dan began ride-sharing on July 1, 2022 and voluntarily registered for HST right away as an annual filer with a calendar year end. The following information relates to his first reporting period, July 1, 2022 to December 31, 2022 (all amounts exclude 13% HST):

- Dan purchased a car on July 1, 2022 and paid $30,000. He drove the car 20,000 km from July to the end of December. During this time, approximately 7,000 km were related to ride-sharing trips.

- Customers typically pay a booking fee directly to the provider of the ride-sharing app when using the service. Dan's total fares collected for the reporting period net of any booking fees were $16,500.

- Automobile expenses for the year included $4,800 of gas and $3,000 of insurance.

- Other expenses consisted of $300 for a vehicle inspection by a licensed mechanic required to use the ride sharing app and $200 of business-related parking.

Determine the following:

a) Dan's net tax remittance for the July 1–December 31, 2022 reporting period

b) Dan's filing and remittance deadlines for the July 1–December 31, 2022 reporting period

c) Whether or not Dan will need to make HST instalments in 2023

CPA Competency 6.7.4 GST compliance requirements

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Question Nine

An employer in Nova Scotia leases an automobile on March 1, 2022, for $1,200 per month plus 15% HST. The automobile is used by an employee for employment and personal purposes. In 2022, the employee drove 1,667 km per month with approximately 30% of this amount for employment use. The employer files HST returns annually and has a calendar fiscal year.

Determine the following:

a) The employer's maximum input tax credit for the lease expense
b) The employee's taxable benefit
c) The employer's HST liability on the employee's taxable benefit
d) What would be different if the vehicle was used 60% of the time for employment purposes

CPA Competency 6.7.5 GST implications for shareholders and closely held corporations

Question Ten

Henry Liu is a lawyer based in a non-participating province with a 5% GST rate. He is providing legal services for his client, BigCo. BigCo is located in a participating province with a 15% HST rate. Henry recorded $25,000 of work-in-progress (WIP) for his time. The engagement required travel between two provinces, which totalled $2,200 ($1,000 plus 5% GST for the flight and $1,000 plus 15% HST for the return flight). During the engagement, Henry filed an application for a permit while acting as an agent of his client to a municipal government body. The application fee was $1,500 plus $75 GST.

Henry's engagement letter states that all disbursements, including travel, will be charged back to BigCo. Photocopying is to be charged at $0.25 per page, and 4,000 pages were used. A disbursement of 5% of professional fees is also charged to cover various administrative items that are not specifically tracked.

Determine the following:

a) The total of all fees, disbursements, and taxes that the customer will pay to Henry.
b) Henry's input tax credit, if any,
c) Bigco's input tax credit, if any. Bigco is a GST/HST registrant.

CPA Competency 6.7.3 GST Net tax calculations for a person

Question Eleven

Linda Hermandez filed her GST return for the January 1-December 31, 2021 period, claiming a refund of $1,000 since her ITCs exceeded the GST collected. She was selected for a pre-assessment review by the CRA and was asked to submit documentation to support her refund.

The CRA assessed the return, adjusting the refund of $1,000 to a balance owing of $200. The assessment was issued on July 15, 2022 and Linda disagrees with the assessment.

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What can Linda do to dispute the assessment? Be sure to highlight any important deadlines. She is confident that she will win the dispute and does not plan to pay off the balance owing in the interim.

CPA Competency 6.7.4 GST compliance requirements

Question Twelve

Briefly summarize the GST/HST implications for each of the following independent scenarios involving real property:

a) Peter Tyson is a first-time home buyer who purchases a detached house to use as his principal residence. The prior owner lived in the home for 30 years.

b) Cathy Mercer is the owner of a beauty salon and pays monthly rent to operate her business in a unit of a local plaza.

c) ABC Ltd. Constructs a new build with 100 residential condominium units. Upon completion, the entire building is sold to XYZ Co. which intends to lease out the condominium units to individuals for periods of at least 12 months. ABC Ltd. And XYZ Co. are both GST registrants.

d) Same scenario as I, except XYZ Co. is not a GST registrant.

e) Ankit Sharma is a student enrolled in a graduate program at the University of Toronto. As part of the program, he accepts a four-month co-op position at a major accounting firm’s Calgary office and rents a condo to live in during his stay.

f) Emily Lawrie purchases a new home in a residential neighbourhood directly from the builder.

g) While out of town on short business trips, Michael Sanders rents out his Vancouver home using a peer-to-peer property rental app to earn some extra income.

CPA Competency 6.7.6 GST obligations arising from other transactions

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Solutions to Key Concept Questions

KC 22-1

Part 1:

Duncan will lose small supplier status and be required to register for GST/HST when he exceeds $30,000 of taxable supplies under the "Sales in Quarter" or "Cumulative Sales" tests.

Quarter	Sales in Quarter	Cumulative Sales
January to March	$5,000	5,000
April to June	$11,000	16,000
July to September	$19,000	**35,000**
October to December	$14,000	49,000

Under the cumulative sales test Duncan loses small supplier status on October 31, which is the end of the first month that follows the July to September quarter. Duncan is required to collect GST/HST on all sales of taxable supplies starting November 1 and must register for GST no later than November 30 (i.e., within 29 days of November 1).

Part 2:

With an additional $20,000 of sales on June 30, the results of the tests are as follows:

Quarter	Sales in Quarter	Cumulative Sales
January to March	$5,000	5,000
April to June	**$31,000**	36,000
July to September	$19,000	55,000
October to December	$14,000	69,000

Since Duncan now has taxable supplies exceeding $30,000 in a single quarter, his small supplier status is lost immediately before the transaction that pushes his taxable sales over $30,000. Duncan's supplier status will be lost immediately before he invoices the additional $20,000 of sales on June 30. Duncan is therefore required to charge GST on his $20,000 of taxable supplies on June 30, and he should register no later than July 29 (i.e., 29 days from June 30).

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KC22-2

Veridian Inc.'s maximum allowable input tax credit (ITC) is $5,883.

- Office rent – Veridian Inc. would have paid $1,950 ($15,000 x 13%) in HST to the landlord since commercial rent is a taxable supply subject to HST.

- Purchases of inventory – Veridian Inc. would have paid $2,600 ($20,000 x 13%) in HST on the acquisition of inventory. It is stated that Veridian Inc.'s revenue consists entirely of taxable supplies, so the inventory it purchases for resale must also be a taxable supply on which HST was paid.

- Insurance premiums are an exempt supply of a financial service, so no HST was paid on this expense. There is no ITC as a result.

- Meals and entertainment – the ITC is limited to 50%, so maximum allowable amount is $293 ($4,500 x 13% x 50%).

- Interest is a financial service which is an exempt supply, so no HST was paid on this expense. There is no ITC.

- There is no ITC permitted on amounts relating to playing golf, even if the expense was incurred in the course of commercial activity. The ITC is explicitly denied.

- Veridian Inc. would have collected HST of $1,040 on the accounts receivable that are now uncollectible. The HST previously remitted can be claimed back as an ITC [(8,000 + 1,040) x 13/113)]

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KC22-3

Dee Ltd.'s GST owing is $30,300.

GST collected:

$400,000 x 5%		$20,000
100,000 x 15%		15,000
30,000 x 0% (exports are zero rated)		0
Input tax credits:		
Operating costs (40,000 x 5%)	$2,000	
Commercial Rent (30,000 x 5%)	1,500	
Office equipment (24,000 x 5%)	1,200	(4,700)
		$30,300

Employees do not collect GST/HST on their salaries and wages. These are not "supplies" for GST/HST purposes. Since Dee Ltd. paid no HST on this expense, it is not eligible for an ITC.

Since the office equipment is used exclusively for business purposes (i.e., commercial activity), a full ITC is allowed in the year of purchase. The ITC is not amortized over the life of the asset. The amortization expense is not eligible for an ITC and is not relevant to the calculations.

KC22-4

Lori's owes GST of $2,880 as determined below:

Quick Method:

Total sales	200,000
GST collected (200,000 x 5%)	10,000
Eligible Supplies	210,000
Remittance rate	1.8%
	3,780
1% rebate on first 30,000 of eligible supplies	(300)
ITCs	
Leasehold improvements (capital property – ITC allowed)	(600)
GST owing	$2.880

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By using the quick method, Lori is not able to claim ITCs on her current expenses. This means the ITC on the rent and inventory purchases, totalling $4,400 (70,000 x 5% + 18,000 x 5%) are forfeited. ITCs are still allowed on capital expenditures, which would include the leasehold improvements.

Lori is also entitled to a 1% rebate on her first $30,000 of eligible supplies (i.e., first $30,000 of sales including GST)

Note that the employee salaries and interest expense on the line of credit are exempt from GST/HST and not relevant to this analysis.

KC 22-5

Since Lisa was required to collect GST as of February 1, 2021, she will need to include 5% of $15,000, i.e., $750, as GST collected in line 105 of her December 31, 2021 GST return and include this amount in her remittance to CRA due on April 30, 2022. Since she did not actually collect this amount from customers, she will be required to pay it out of pocket. To recover the tax, Lisa can send a written request to her CRA tax centre to change her effective registration date to February 1, 2021. When making this request, Lisa should include evidence that she was required to be registered on this date (for example, invoices showing that her cumulative sales exceeded $30,000 in December 2020).

If CRA approves the backdating of the registration, Lisa can then bill her customers for the GST she neglected to charge initially. These customers are liable to pay the GST since they were the recipients of a taxable supply made by Lisa. If Lisa's customers are GST registrants, they will be entitled to claim input tax credits on any tax charged by Lisa, so it is likely that they will pay Lisa the GST without incident. In the event that a customer refuses to pay, Lisa has the right to initiate legal action against the customer to recover the unpaid tax.

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KC 22-6

a) This would be a taxable supply since the jeans are sold in the course of a commercial activity carried on by the clothing store.

b) This would be a taxable supply, but since the customer is located in the United States, this would be considered an export and thus zero-rated.

c) The answer would not change from (b). The place of supply for a service is generally where the customer is located, not where the service is performed. Since the customer is located in the US, this would be considered an export of a service even though the work is performed in Canada.

d) Prescription drugs are considered a zero-rated supply.

e) Although this is residential property, it would be a taxable supply since the property is brand new.

f) This would be considered a financial service which is an exempt supply

g) Sales of commercial real estate are taxable supplies. Even though this is sold to a non-resident located outside of Canada, the place of supply for real property is where the property is physically situated. As a result, this would not be considered an export.

KC 22-7

When a business is sold, an election is ordinarily available to remove the requirement to charge GST on the sale of the various assets. However, that election would not be applicable in this instance since the facts state that the assets sold do not represent substantially all of the assets required to run the furniture manufacturing business. The GST/HST must therefore be charged on the sale of the assets based on the place of supply.

a) The place of supply is Ontario and the inventory would be subject to HST at 13%. Although the goods are billed to the head office in Alberta, this is not relevant in this case. The place of supply is instead based on where the goods are delivered or made available to CLC. Since FFC must arrange for the transportation of the inventory and provide adequate insurance until the goods are delivered, the risks and rewards of ownership do not pass to CLC until the goods are delivered since this is when the goods become “available” to CLC.

b) The right to use the manufacturing process would be considered a supply of an intangible. The place of supply will be Alberta since there is no restriction on where the

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right can be used in Canada, a billing address is obtained from CLC, and it would be reasonable to assume that consideration will consist of more than $300 in this case. The transaction would be subject to 5% GST as a result.

c) The place of supply is Alberta and the service would be subject to GST at 5%. Even though the service is performed in Nova Scotia, it is the address of the customer that determines the place of supply for this kind of service.

KC 22-8

a) Dan's net tax remittance is $1,588 calculated as:

GST collected	16,500 x 13%	$2,145
Input tax credits:		
Automobile	Note 1	(274)
Gas (business use only)	4,800 x 13% x 35%	(218)
Insurance	Note 2	-
Vehicle inspection	300 x 13%	(39)
Parking	200 x 13%	(26)
		$1,588

Note 1:

Business use of the car is 35% (7,000 / 20,000 km). Since this is more than 10% but less than 50%, and because Dan is not incorporated, the ITC is based on the CCA Dan will claim for income tax purposes for the year.

$30,000 UCC x 30% CCA rate x 150% first year accelerated CCA x 184/365 days x 35% business use x 13/113 = $274 ITC

The CCA is prorated by days since this is the first year that Dan began operating his business. Individuals must prorate their CCA for short fiscal years. Since Dan started his business July 1, the first fiscal year for his business is July 1 to December 31. See Chapter 6 for more information on rules for calculating CCA.

Note 2:

The insurance would be an exempt supply, so Dan would not have paid any HST on this expense. Thus, there is no input tax credit.

b) Since Dan is an individual and an annual filer, his filing deadline for the July 1, 2022 to December 31, 2022 reporting period will be June 15, 2023, but the $1,588 of net tax owing calculated in part (a) will need to be remitted by April 30, 2023.

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c) Instalments are required after an annual filer has net tax owing for a fiscal year of $3,000. New registrants whose first annual reporting period is less than a full year must prorate their net tax owing to 365 days to determine whether they need to start paying instalments in the subsequent reporting period.

Dan had net tax owing of $1,588 in the July 1, 2022 to December 31, 2022 reporting period. Prorating to a full year would make this $3,150 ($1,588 / 184 days x 365 days). Since this is more than $3,000, Dan is required to make instalments in 2023.

Instalments are due one month after the end of each fiscal quarter, i.e., April 30 2023, July 31 2023, October 31 2023, and January 31 2024. To calculate the remittance, Dan can use 25% of the prorated December 31, 2022 remittance of $3,150 (i.e., $788 each quarter). Alternatively, Dan can make instalment based on 25% of his expected HST remittance for the January 1, 2023 to December 31, 2023 reporting period; however, if he makes instalments of less than $3,150 and there ends up being a balance owing on his January 1, 2023 to December 31, 2023 HST return, interest will be payable on insufficient instalments.

KC 22-9

a) The employer's input tax credit on the automobile is based on the maximum lease deduction allowed for income tax purposes ($900 per month for 2022):

$900 per month x 10 months (March to December) × 15% HST = $1,350

b) Employee's taxable benefit:

Standby charge— $ 1,200 per month × 1.15 × 2/3 × 10 months	$ 9,200
Operating benefit— 1,667 km × 10 months × 70% personal use × 29¢ (for 2022)	3,384
	$12,584

c) Employer's HST liability:

On the standby charge— $ 9,200 × 14/114	$ 1,130
On the operating benefit— $ 3,384 × 11%	372
Total to be remitted	$ 1,502

The 14/114 fraction is taken from "Appendix C – Standby charge benefits" of CRA's GST/HST memorandum 9.2:

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https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/9-2/automobile-benefits.html#_Toc306189902

d) If employment use was 60%, part (a) would not change. However, part (b) would be different since the employee's taxable benefit would be calculated using the reduced standby charge from chapter 4. This would also change the employer's HST liability on the employee benefit in part (c).

Employee's taxable benefit:

Standby charge— $ 1,200 × 1.15 × 2/3 × 10 months × 6,668 (personal) / 16,670 km	$ 3,680
Operating benefit— half of standby charge	1,840
	$ 5,520

Employer's HST liability:

On the standby charge— $ 3,680 × 14/114	$ 452
On the operating benefit— $ 1,840 × 11%	202
Total to be remitted	$ 654

KC 22-10

(a) The GST/HST treatment of disbursements depends on whether Henry incurred the disbursement as an agent of his client. In general, the CRA does not consider an agency relationship to exist when travel or photocopying costs are incurred, or when the disbursement is based on a flat percentage of professional fees.

Therefore, these disbursements form part of Henry's taxable supply, and Henry should include the pre-GST/HST cost in his billing and apply a 15% HST rate since the place of supply for this engagement will be based on BigCo's address in a 15% HST province.

The amount of HST to charge is $4,387.50 as shown in the calculation below:

Professional fees (based on work in progress	25,000
Plus disbursements:	
Travel (excluding sales tax)	2,000
Photcopying (25 cents x 4,000 pages)	1,000
Administrative (based on 5% ofprofessional fees)	1,250
Total	29,250
HST rate	15%
HST to charge	4,387.50

This results in a total of $33,637.50 ($29,250 plus $4,387.50).

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The application fee was incurred while Henry was acting as an agent on behalf of his customer. This does not form part of Henry's taxable supply so it was not included in the above calculations. Expenses incurred while acting as an agent are merely passed through to BigCo without forming part of Henry's taxable supply. Therefore, Henry should add the $1,500 application fee plus $75 of GST at the very end of his invoice after showing the $4,387.50 of HST charged on his taxable supply, and he should provide a copy of the permit receipt to BigCo.

The total fees, disbursements and taxes paid by BigCo is $35,212.50 ($33,637.50 plus $1,575).

(b) Henry's input tax credit will consist of $200 of GST and HST paid on his travel costs (i.e., 5% of the $1,000 flight and 15% of the $1,000 return flight). If Henry had paid GST/HST on any other inputs (e.g., on the paper used for photocopying) he may claim these as well, but this information is not provided. Henry does not claim an input tax credit on the $75 of GST paid on the permit application since he incurred this while acting as an agent for BigCo.

(c) Since Henry was acting as BigCo's agent when he made the permit application to a municipal government, for GST/HST purposes this cost is treated as if it were actually made by BigCo and not by Henry. BigCo is therefore entitled to claim the input tax credit of $75 while Henry is not. BigCo is also entitled to claim an ITC on the $4,387.50 of HST charged by Henry on his invoice.

KC 22-11

Linda can dispute her GST assessment by filing a notice of objection. The objection must outline the facts and reasons for the dispute and why the CRA assessment is not correct. It may also be necessary to provide additional documentation to support the argument.

The deadline for filing a notice of objection to a GST return is 90 days from the date the assessment is made. This means that Linda should file no later than October 15, 2022.

Linda should pay off the balance in the interim since CRA is not precluded from taking enforcement action to collect GST liabilities even when a notice of objection has been filed. Even though Linda feels confident that she will win, there is no guarantee, so paying off the balance as quickly as possible limits exposure to additional interest. If Linda's objection is successful, she will be refunded any payment made in the interim.

If Linda is unsuccessful in the dispute and still wishes to pursue the matter further, she may file an appeal to the Tax Court of Canada within 90 days of the day that the objection is denied.

KC 22-12

a) This is a sale of used residential property and would not be subject to GST/HST since it would be considered an exempt supply.

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b) Renting the unit of the local plaza would be commercial rent, so there is GST/HST applicable on the payments. However, Cathy would be able to claim an input tax credit since she is using the space to operate her beauty salon.

c) The sale of the completed building will be a taxable supply since this is new residential property. Since XYZ Co. is a GST registrant, no GST needs to be collected by ABC Ltd. on the sale. Instead, XYZ Co. will self-assess GST on the value of the entire building (i.e., on the value of all 100 condominium units). XYZ Co. will not be entitled to claim an input tax credit for the self-assessed tax since the building will be used to earn residential rent which is an exempt supply. However, XYZ Co. will be able to file the New Residential Rental Property Rebate since the condominium units will be rented out to individuals for use as a principal residence for periods of at least 12 months. The rebate allows up to 36% of the self-assessed GST to be recovered, but only on each of the condominium units valued under $450,000.

d) The outcome would be identical to I with the exception that the GST would not be self-assessed by XYZ Co., but instead ABC Ltd. will charge XYZ Co. the GST on closing.

e) The rent Ankit pays will be exempt from GST since it is residential rent for a period exceeding one month

f) Since this is new residential property, GST/HST will be applicable on the sale. Assuming that Emily intends to use the home as principal residence for at least 12 months, she will be entitled to claim the New Residential Property Rebate and recover a portion of the GST/HST paid on the sale. This rebate can be assigned to the vendor which gives Emily the benefit of the rebate at the point of sale. This helps from a cash-flow perspective since it will reduce the amount that Emily must pay to the builder at the time of closing.

g) The rent would be a taxable supply. Although this is residential rent, it is for periods of less than one month. Michael will be required to charge GST/HST on the rent unless he is a small supplier.

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