

# SALES AND OTHER TAXES

Federal Goods and Services Tax	59
Harmonized Sales Tax	59
Provincial Sales Tax	60
Provincial Payroll Taxes	60
Other Taxes	60

*By Wendy Brousseau*



## SALES AND OTHER TAXES

The federal government and most of the provinces have sales tax regimes.

### Federal Goods and Services Tax

The federal government imposes a 5% multi-stage, value-added tax called the Goods and Services Tax (GST), which applies to taxable supplies (e.g., supplies of most types of property, including intangibles and real property as well as services) made in Canada. Certain types of property and services, including most financial services, are exempt for GST purposes and certain supplies, defined as zero-rated supplies, which include exports, are taxed at a rate of 0%.

GST is also levied on taxable goods imported into Canada, and there are self-assessment obligations on certain purchasers of imported services and intangibles.

The GST is a value-added tax and it applies at each stage of the production and distribution chain. Generally, businesses making taxable supplies of property and services must register for, collect and remit the applicable GST on their supplies made in Canada. While GST applies to every transaction throughout the distribution chain, it is imposed on the ultimate consumer; accordingly, businesses involved in commercial activities are entitled to recover the GST they pay through an input tax credit mechanism.

It is not always easy to determine whether supplies made to or by non-residents of Canada attract GST; accordingly, consideration of specific rules is required. For example, whether GST applies to recent e-commerce developments requires close examination.

### Harmonized Sales Tax

Five provinces currently have harmonized their provincial sales taxes with the GST: Ontario, Nova Scotia, New Brunswick, Newfoundland and Labrador and Prince Edward Island. In those provinces, the Harmonized Sales Tax (HST), made up of the federal 5% GST component and a provincial component that varies from 8% to 10%, applies on the same basis as the GST. Accordingly, the discussion above regarding the GST also generally applies to the HST. It should be noted, however, that Ontario and Prince Edward Island have implemented temporary restrictions on the ability of certain large businesses to claim input tax credits with respect to

the provincial component of the HST on certain specified supplies.

Once it is determined that a supply is made in Canada, it must then be determined whether the supply is made in a harmonized province and therefore subject to HST. Detailed rules apply to determine whether a supply is made in a harmonized province, which vary depending on the type of supply at issue.

Effective January 1, 2013, the Province of Québec harmonized the Québec sales tax (QST) with the federal GST; however, unlike other harmonized provinces, the QST is a separate tax imposed under provincial legislation. As of January 1, 2016, the QST rate is 9.975%.

### **Provincial Sales Tax**

British Columbia, Saskatchewan and Manitoba currently impose a single incidence provincial sales tax (PST) (in addition to the 5% GST) on end-users of most tangible personal property and certain services in their respective provinces. General rates of PST vary from 5% to 8%.

Alberta does not impose a PST; accordingly, only the 5% GST applies in Alberta.

### **Provincial Payroll Taxes**

Manitoba, Ontario and Newfoundland and Labrador levy an employer payroll tax that is calculated based on a percentage of remuneration paid in the province (subject to a certain threshold). Québec also levies a similar employer tax in the form of contributions to a provincial health services fund.

### **Other Taxes**

The federal government imposes other taxes, including customs duties and excise taxes. Various provinces also impose other taxes, including provincial capital taxes (often limited to financial institutions), fuel, gas and insurance taxes and real estate transfer taxes. Most municipalities impose annual taxes on the ownership of real estate. In 2008, the City of Toronto enacted a municipal land transfer tax.

FOR MORE INFORMATION, PLEASE CONTACT:

Wendy Brousseau

416-601-7720

wbrousseau@mccarthy.ca