

Refunds, Rebates and Adjustments

RST Guide 700

Published: June 2008

Content last reviewed: July 2010

ISBN: 978-1-4249-6716-2 (Print), 978-1-4249-6718-6 (PDF), 978-1-4249-6717-9 (HTML)

On July 1, 2010 the federally administered Harmonized Sales Tax (HST) replaced the Ontario Retail Sales Tax (RST). As a result, RST provisions described on this page and in other publications ended on June 30, 2010. This includes any RST exemptions, temporary exemptions and certain rebates originally intended to end at a later date. [Learn more about the HST.](#)

All completed applications for RST refunds or rebates (with supporting documentation) are due to the Ministry of Finance by December 31, 2012. This deadline does not apply to refund and rebate periods for RST paid in respect of insurance premiums or private purchases of specified vehicles.

- The information in this Guide explains the refunds, rebates and adjustments available under the Retail Sales Tax Act (Act). Please note that this Guide replaces the previous version titled "Refunds and Adjustments", dated January 1997.

Refunds

General

For the purposes of the Act, a 'refund' refers to Retail Sales Tax (RST) that was paid in error. A refund of RST may be available to persons who purchase goods and services, provided the refund claim is received by the Ministry of Finance (ministry) within four years from the date the RST was paid. Interest is payable on all refunds from the ministry and will be calculated starting from 21 days after the application for a refund was received until the date the refund is paid.

Goods Shipped Outside Ontario

Goods may be purchased centrally in Ontario and shipped for use outside the province. Purchasers who buy goods in Ontario and have them shipped directly by the vendor for use outside Ontario, without taking possession in Ontario, may claim a refund of any RST paid in error at the time of purchase. They must, however, pay the sales tax applicable to other Canadian provinces or territories before claiming a refund of RST and submit proof of payment with the claim. If the goods are shipped to a province or territory where sales tax is not payable, or to a location outside of Canada, proof of shipment (e.g., a copy of the bill of lading) must be sent with the claim.

Real Property Contracts

When a customer has been charged RST in error on a real property contract, the customer

may apply for a refund of the RST based on the difference between the RST charged and the RST that should have been paid by the contractor on the contractor's cost of materials.

If the amount of RST payable by the contractor on the cost of materials cannot be clearly established, the refund is calculated as 12 per cent of the RST charged to the customer on the total contract price. If the installation labour is shown separately, all of the RST paid on the labour charge may be refunded. (See RST [Guide 206 - Real Property and Fixtures](#)).

Used Motor Vehicles Purchased Privately

For used motor vehicles purchased privately, RST is normally payable on the higher of the purchase price or the average wholesale value, as stated in the Canadian Red Book. However, there are two situations where this rule is not strictly applied:

- purchasers who buy worn or damaged vehicles with an average wholesale value of \$1,000 or more, may obtain an appraisal before registration and pay RST on the higher of the purchase price or the appraised value
- where the purchaser has paid RST on the vehicle's average wholesale value at the time of registration but obtains an appraisal after registration that shows the average wholesale value is overstated, the purchaser can claim a refund of the difference between the RST paid and the RST due on the appraised value. The vehicle must be appraised within 60 days from the date of purchase to qualify for the refund.

A "Motor Vehicle Appraisal Record" form and the bill of sale must be sent with the refund application to support an appraised value lower than the purchase price.

The purchasers may claim a refund by using the "Application for Refund of Ontario Retail Sales Tax for the Used Vehicle Information Program," and the "Motor Vehicle Appraisal Record" form. (See RST [Guide 207 - Private Sales](#) and RST [Guide 209 - Used Vehicle Information Program](#)).

Vehicles Converted to Farm Use

Farmers may obtain a refund of the Retail Sales Tax (RST) paid on vehicles and their repair parts when they are converted into unlicensed self-propelled vehicles for specific farm use. The vehicles must be converted within 30 days from the date of purchase to be eligible for the refund. (See RST [Guide 807 - Farmers](#)).

Refunds Available for RST Paid in Error

RST Paid in Error

Where non-taxable goods or services have been purchased for use in Ontario and RST has been paid in error on those goods or services, the purchaser may be entitled to a refund of the RST paid.

The ministry may also refund the RST paid in error on:

- production machinery, equipment, repair parts and processing materials purchased for use by manufacturers (See RST [Guide 400 - Manufacturers](#), RST Guide [401 - Manufacturing](#))

[Contractors](#), and RST [Guide 402 - Printing](#))

- the supply and installation of production machinery and equipment by contractors (See RST [Guide 400 - Manufacturers](#), and RST [Guide 401 - Manufacturing Contractors](#))
- exempt publications (See RST [Guide 507 - Publications](#))
- hospital equipment and supplies (See RST [Guide 805 - Hospitals](#))
- equipment designed for persons with disabilities (See RST [Guide 802 - Exempt Items for People with Physical Disabilities](#))
- farm equipment (See RST [Guide 807 - Farmers](#))
- building materials (wood, nails, paint, etc.) purchased to modernize a building or structure used exclusively for farm purposes i.e., a barn or silo (See RST [Guide 807 - Farmers](#))
- goods and services purchased by Status Indians for use on a reserve (See RST [Guide 808 - Status Indians, Indian Bands and Band Councils](#))
- goods and services purchased by foreign states, representatives and officials (See RST [Guide 803 - Foreign States, Representatives and Officials](#))
- inventory purchased by a vendor for resale
- cancelled sales.

Refunds Available From Vendors

General

Vendors may provide refunds to customers within four years of the purchase date of goods, taxable services, and prices of admission if certain conditions are met.

Refund Conditions

Vendors may refund RST only if:

- the vendor gives a full or partial refund or credit on goods returned by their customer
- the vendor makes a mistake in calculating the RST
- the purchaser of the goods bought for resale gives the vendor a valid Purchase Exemption Certificate after being charged RST
- the price paid for goods, taxable services or the price of admission is subsequently reduced and the amount of the reduction is refunded or credited to the purchaser.

A vendor has four years in which to deduct any Retail Sales Tax (RST) refunded to customers from its RST liability account.

Insurance Premiums/Benefits Plan

Vendors who charge RST on insurance premiums or a benefits plan may refund part or all of the RST charged if the premium or insurance contract is reduced or cancelled. RST may be refunded within four years following the payment date of the original premium.

The Act does not allow for a refund of the RST on a cancelled premium and subsequent adjustment by anyone other than the vendor that collected the tax. Therefore, third parties who did not collect the tax originally are not permitted to refund RST or make an adjustment in their tax liability account. (See RST [Guide 519 - Insurance - General Information](#)).

Tax for Fuel Conservation

Vendors may refund the Tax for Fuel Conservation (TFFC) paid on new vehicles if the original sale price is fully refunded to the customer on the return of the vehicle. The TFFC is a flat tax that does not change even if the sale price of the vehicle is reduced. For this reason, no adjustment is available if there is only a partial refund of the selling price. (See RST [Guide 513 - Tax for Fuel Conservation](#)).

Rebates

General

For the purposes of the Act, a 'rebate' refers to RST that was properly paid and is subsequently returned to the purchaser under a rebate provision in the Act.

A rebate of RST may be available to persons who purchase goods and services, provided the rebate claim is received by the ministry within four years of the date that the RST was paid.

Goods Permanently Removed from Ontario

Persons who purchase goods in Ontario and then subsequently remove these goods from the province, for permanent use outside of Ontario, may apply for a rebate of the RST that was paid.

To qualify for the rebate, all of the following conditions must be met:

- the goods are permanently removed from Ontario within 30 days of purchase
- the RST paid on each invoice is \$50.00 or more
- the RST was not paid in respect of tobacco products, liquor, wine or beer, and
- if the goods are removed to another Canadian jurisdiction, proof is supplied that all of the applicable tax has been paid to the other Canadian jurisdiction. If the goods are purchased for use in a jurisdiction where sales tax is not payable, proof of delivery, e.g., a copy of the bill of lading or customs document, must be sent with the claim.

In the case of new motor vehicles that are removed for permanent use outside of Ontario, the rebate includes any TFFC that may have been paid.

Vehicles Powered by Alternative Fuels

People who purchase or lease (12 months or more) new or used vehicles licensed under the Highway Traffic Act (e.g., automobiles, trucks and vans) may qualify for a rebate of RST if the vehicles operate on alternative fuels.

Eligible non-hybrid vehicles are those that operate or are converted to operate:

- exclusively on electrical energy
- exclusively on propane, natural gas, ethanol, methanol, or other manufactured gasses; or
- as dual-powered vehicles (vehicles that use one of the alternative fuels mentioned above and that can also be powered by gasoline or diesel fuel).

Eligible hybrid electric vehicles (HEV) must have (at the first retail sale):

- power from an electric motor and an internal combustion engine
- regenerative braking designed to recover the energy released while slowing down or stopping, and
- an energy storage system such as a battery, ultra capacitor or flywheel.

The rebate is limited to a maximum of:

- \$750 for propane vehicles
- \$1,000 for vehicles powered by any other alternative fuel including HEVs delivered to purchasers before March 24, 2006 and
- \$2,000 for HEVs delivered to purchasers after March 23, 2006 and before April 1, 2012.

Dual powered vehicles do not qualify for a rebate of the TFFC.

A vehicle, other than a hybrid electric vehicle, that is converted within 180 days from the date it was purchased may qualify for a rebate of Retail Sales Tax (RST) including the Tax for Fuel Conservation. The purchaser may be entitled to a rebate of the RST paid on the cost of the conversion kit and labour to install the kit if the conversion is not completed within the 180 days.

Rebate applications must be received within four years from the date the RST was paid.

Claimants should use the form "Retail Sales Tax Application for Refund - Vehicles Powered by Alternative Fuels" to apply for a rebate. (See RST [Guide 702 - Vehicles Powered by Alternative Fuels](#)).

Construction Contracts of Religious, Charitable or Benevolent Organizations

Any organization defined as a "registered charity" by subsection 248(1) of the Income Tax Act (Canada), and that holds a registration number issued by Canada Revenue Agency, may be

entitled to a rebate of RST paid on materials that were purchased to build or repair buildings owned or leased by them.

A rebate is not available if the building or structure is:

- a university or a community college that receives financial assistance directly or indirectly from the province
- a publicly funded school
- a hospital or nurses' residence
- owned, leased or controlled in any way by a municipality or the local board.

The organization may claim the actual amount of RST paid if it purchased the materials directly from suppliers. If the organization entered into a construction contract with a builder who purchased the materials, the actual amount of RST paid by the contractor will not be known by the organization. In this case, the rebate would be calculated using 3 per cent of the total contract price if the Goods and Services Tax (GST) is included or 3.4 per cent if GST is not included. The total contract price must first be adjusted to exclude ineligible expenses. (See RST [Guide 806 - Religious, Charitable and Benevolent Organizations](#)).

Adjustments

General

Adjustments include ministry approved credits or deductions that a vendor may apply to their RST liability account in order to reduce the amount of RST payable with their RST return.

Bad Debts

Where credit has been extended to a customer, the vendor may have remitted the Retail Sales Tax (RST) due on the sale before it has been collected from the customer. If the customer's account, or a portion of it, is uncollectible and later written off as a "bad debt," the vendor is entitled to a rebate of the RST that was remitted but not collected.

Vendors may claim a rebate of RST included in customers' payments made by cheque where the cheque is returned non-negotiable.

In order to qualify for a rebate of RST remitted on bad debts, the vendor must supply proof that:

- there has been a default in payment by the customer in respect of the sale
- they have written off the debt in their books of account
- the write-off of the bad debt was in accordance with generally accepted accounting principles, and
- the rebate is being claimed within four years from the end of the fiscal year in which the vendor wrote off the unpaid amount as bad debt.

Alternatively, vendors may make adjustments to their RST liability account and RST returns for any RST included in the amounts written off (including any tax for fuel conservation). Only one adjustment may be made to a vendor's RST liability account during any twelve month period for all claims under this section. Vendors must apply in writing for approval from the ministry to make additional adjustments in a twelve month period. Any adjustment to the RST liability account will be verified when the ministry audits the books and records of the vendor. The vendor must ensure that sufficient documentation is retained on file so that the validity of any adjustments taken may be confirmed.

If no payment was received from a customer and the entire account was written off as a bad debt, then the entire amount of the RST that was remitted on the sale may be claimed as an adjustment.

If a vendor remitted the full amount of RST charged on a credit sale but received only a portion of what was owed, a proportional adjustment may be made for the RST that was remitted but was not collected before writing the account off as a bad debt.

Calculating the Adjustment

The proportional RST adjustment must be calculated using the following formula:

$$\text{Adjustment} = A \times B \div C$$

Where,

"A" is the RST remitted by the vendor with respect to the sale;

"B" is the unpaid amount less all amounts required to be deducted from the unpaid amount; and

"C" is the total amount that was payable in respect of the sale, including the amount of RST imposed by the Act.

Example:

Sale price of tables and chairs	\$360
Delivery Charge	<u>40</u>
	\$400
GST (5 per cent)	20
RST (8 per cent remitted)	<u>32</u>
Total amount payable	\$452
Less Deposit	<u>100</u>
Amount owing to be written off	<u>\$352</u>

$$\text{Adjustment} = 32 \times 352 / 452 = \$24.92$$

The unpaid balance in "B" must be reduced by the following amounts:

- all interest, financing, carrying, collection or similar charges except where deemed to be part of the fair value of the goods sold
- the sale of goods that have been repossessed and resold, the proceeds of which have been received by the vendor
- all amounts received on the realization of any security given to secure the unpaid amount
- the fair value of the tangible personal property (TPP) at the time of lease or change in use, if the TPP is repossessed and leased or taken out of inventory for use by the vendor or others at the vendor's expense.

Adjustments do not apply to uncollectible accounts resulting from:

- real property contracts
- purchases made with a credit card issued by a third party
- non-arm's length sales (sales between a vendor and persons who are related to the vendor)
- the assignment, transfer or sale of accounts receivable, by a vendor to a third party, whether or not the third party is related to the vendor. However, if the third party can charge back to the vendor any amounts that are not collectable, a refund may be claimed for any RST included in the charge-back after this amount is written off as uncollectible by the vendor in the vendor's books of account.

In the event a vendor recovers any unpaid amounts after making an adjustment to their Retail Sales Tax (RST) liability account, the vendor must repay the minister by making an adjustment to their liability account which will increase the amount reported on Line 2 of the RST return. The amount payable should be calculated using the same formula used to calculate the original adjustment to the RST liability account.

Goods Purchased for Resale

A vendor who has paid RST to their supplier on goods for resale must apply for a refund by completing a [General Application for Refund of Retail Sales Tax form \[PDF - 400 KB\]](#) and submitting it to the ministry within four years from the date on which the RST in question was paid. Alternatively, the vendor can provide their supplier with a valid Purchase Exemption Certificate and receive the refund directly from the supplier (see section titled Refunds Available from Vendors).

Manufactured Cost Year-end Calculations/Adjustments

Manufacturing contractors may use the previous fiscal period's actual costs to estimate direct labour and manufacturing overheads for the current fiscal period. The RST paid for the current

fiscal year must, however, be recalculated when actual cost figures are available to determine the actual RST owing for the year.

If Retail Sales Tax (RST) is underpaid, the underpayment must be reported and remitted on the next RST return. An overpayment may be deducted through an internal adjustment to the RST owing in the contractor's records.

Claiming a Refund or Rebate

Application

To claim a refund or rebate, a [General Application for Refund of Retail Sales Tax form \[PDF - 400 KB\]](#) must be completed, unless otherwise noted.

Properly completed application forms must be accompanied by copies of supporting documents that show RST was charged and paid. If the documents are too numerous for shipping, please have them separated from other records. Claimants may be requested to forward a sample to verify the accuracy of the claim. Evidence must also be provided that the claimant and the goods are eligible for the refund/rebate. The documents required to support your refund/rebate are outlined in Section B of the application form.

Care should be taken in completing the claim. If a high number of ineligible items are included, the application may need to be revised and resubmitted.

Completed application forms, together with the supporting documentation, should be mailed to the Ministry of Finance Tax Office indicated on the form.

Time Limits

An application for a refund or rebate of RST must be received by the ministry within four years from the date the RST was paid on the goods, services or price of admission over \$4.00.

Claimants unable to meet this deadline may make a request, in writing, to the ministry and provide proof of extenuating circumstances detailing why they are unable to submit a properly completed application and supporting documents. The ministry may extend the deadline by up to six months.

Interest

Where a refund or rebate attracts interest, it will be calculated on the approved amount beginning on the 21st day after the completed application is received by the ministry. The rate of interest is set on a quarterly basis.

Penalty

Every person who obtains or attempts to obtain a refund or rebate by fraudulent means, is guilty of an offence and, on conviction, is liable to a fine of at least \$500 and not more than double the amount of the refund or rebate obtained or sought to be obtained, or to a term of imprisonment of not more than two years, or to both.

Legislative References

- Retail Sales Tax Act, subsections 2(10); 2(11); 2(11.1); 2(13); 2(16); 2(16.0.1); 2(16.0.2);

2(16.1); 2(16.2); 35(1); 48(1); 48(3); clauses 48(2)(d); 48(2)(f); 48(2)(h); 48(3)(k); (48)(3)(g); (48)(3)(h); (48)(3)(i)

- Regulation 1012 under the Retail Sales Tax Act, Section 11
- Regulation 1013 under the Retail Sales Tax Act, subsections 14(1); 14(2.1); 14(2.2); 14(2.2.1); 14(2.3); 14(4); 14(4.1); 14(5); 14(10); 18(3); 18(5); 18(8)

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