



How a Charity Calculates the Net Tax to be Reported on its GST/HST Return

The Canada Revenue Agency (CRA) administers the goods and services tax (GST) at the rate of 5% as well as the harmonized sales tax (HST) at the rate of 13% in the participating provinces of Nova Scotia, New Brunswick, and Newfoundland and Labrador.

The 2009 Ontario Budget proposed an HST at the rate of 13%, which will come into effect on July 1, 2010. In addition, on July 23, 2009, the British Columbia (B.C.) Ministry of Finance issued a News Release proposing an HST at the rate of 12%, which would come into effect on July 1, 2010.

This info sheet explains how a charity calculates the net tax to be reported on its GST/HST return.

A charity that is a registrant is required to complete and file a GST/HST return by using either Form GST34, *Goods and Services Tax/Harmonized Sales Tax (GST/HST) Return for Registrants*, or Form GST62, which is the non-personalized version of Form GST34. Once a charity is registered for GST/HST purposes, a personalized GST/HST return (Form GST34) is automatically sent to the charity for each of its reporting periods.

“Charity” means a registered charity or a registered Canadian amateur athletic association within the meaning of the *Income Tax Act*. A charity can issue official donation receipts for income tax purposes. For GST/HST purposes, a charity does not include a public institution.

“Public institution” means a registered charity (within the meaning of the *Income Tax Act*) that is a school authority, a public college, a university, a hospital authority, or a local authority determined by the CRA to be a municipality. Information on how the GST/HST applies to public institutions is available in the GST/HST Info Sheet GI-068, *Basic GST/HST Guidelines for Public Institutions*.

“Registrant” means a person who is registered, or is required to be registered, for GST/HST purposes.

“Supply” means the provision of property or a service in any manner, including sale, transfer, barter, exchange, licence, rental, lease, gift, or disposition.

“Taxable supply” means a supply subject to the GST or the HST and includes a “zero-rated supply” taxable at the rate of 0%.

“Exempt supply” means a supply not subject to the GST/HST.

How often must a charity file a GST/HST return?

A charity registering for GST/HST purposes is assigned an annual reporting period regardless of its revenues. This means that most charities registered for GST/HST purposes file a GST/HST return once a year to report their net tax.

A charity that wishes to change its reporting period and file monthly or quarterly GST/HST returns can do so by calling the CRA at 1-800-959-5525, or by completing and filing Form GST20, *Election for GST/HST Reporting Period*.

Form GST20 and other forms are available on the CRA Web site at www.cra.gc.ca/orderforms or by calling 1-800-959-2221.

The net tax calculation for charities

For registrants, other than charities, net tax is generally the difference between any GST/HST collected or collectible by a person less any input tax

La version française du présent document est intitulée *La façon dont un organisme de bienfaisance doit calculer la taxe nette dans ses déclarations de TPS/TVH*.



credits (ITCs) that the person is entitled to recover for the GST/HST paid or payable on its purchases. However, there is a different net tax calculation method specifically for charities that are registrants.

A charity must use the net tax calculation for charities to determine its net tax unless it meets one of the exceptions listed under the heading, “Exceptions to using the net tax calculation for charities”.

This method simplifies the way charities calculate their net tax as it generally removes the need for charities to allocate their purchases in relation to their taxable supplies and exempt supplies.

To calculate its net tax remittance for a reporting period using the net tax calculation for charities, a charity must follow the steps below.

Step 1 – Determine the total GST/HST and adjustments for the reporting period

The total of the GST/HST and adjustments for the period is reported on **line 105** of the GST/HST return, and includes:

- 60% of the GST/HST collected or collectible on most taxable supplies.

For most charities that are registrants, this is the only amount to be entered on **line 105**.

Occasionally, a charity will have to include additional amounts if it is involved in certain transactions. The additional amounts to be included in the total reported on **line 105** are:

- 100% of the GST/HST collected or collectible on taxable sales of capital property or real property (land or buildings), including deemed taxable sales of capital property or real property;
- 100% of the GST/HST deemed to be collected on property or services appropriated to, or for the benefit of, a member or relative of a member of the charity (e.g., an inventory item given to a member);
- 100% of the GST/HST deemed to be collected on property or services that the charity provides to an employee and that are taxable benefits for income tax purposes;

- 100% of the GST/HST collected or collectible on sales of goods when the charity was acting as an agent, or auctioneer and agent, of a person where the charity has to account for the tax;
- 100% of any GST/HST collected in error;
- 100% of all amounts required to be taken into account as tax by the charity because of the recovery of a bad debt for a taxable sale of real property or capital property;
- the amount of tax adjusted, refunded or credited to a charity by the seller of capital property or real property to the extent that the amount was previously claimed by the charity as an ITC; and
- any amount that the charity carried forward from designated reporting periods for which the charity received approval from the CRA to temporarily stop filing GST/HST returns for those periods in which it had \$1,000 or less of net GST/HST to report.

In general, charities using the net tax calculation for charities are not required to account for tax in respect of amounts that they receive under warranty claims or as rebates from manufacturers or other vendors. Charities will also not have to account for tax if, as creditors, they seize personal property and take it for their own use.

Step 2 – Determine the total ITCs and adjustments

Charities that use the net tax calculation for charities cannot claim as ITCs most of the GST/HST paid or payable on their purchases (even if they relate to taxable supplies). Therefore, in most cases **line 108** of the GST/HST return will be zero. Nevertheless, there are some particular situations where the amount reported on **line 108** may include the following:

- 100% ITCs for the GST/HST paid or payable on the charity’s purchases of, or improvements to, capital property or real property for use primarily (more than 50%) in the charity’s commercial activities, including the deemed GST/HST payable when capital property is brought into a participating province for use primarily in its commercial activities;

- any ITC for the GST/HST paid or payable on the charity's acquisition of, or improvement to, real property based on the percentage of use of the real property in the charity's commercial activities (must be more than 10%) and for which it filed Form GST26, *Election or Revocation of an Election by a Public Service Body to Have an Exempt Supply of Real Property Treated as a Taxable Supply*, that is effective the day the property is acquired;
- any ITC equal to the basic tax content of real property just before an election by the charity takes effect to treat that property as a taxable supply (i.e., Form GST26 has been filed) and any ITC for the GST/HST considered paid on the deemed purchase of that property based on the percentage of use of the property in the charity's commercial activities (must be more than 10%), where the election takes effect on a day other than the day the property was acquired or the day the charity becomes a registrant;
- 100% ITCs for the GST/HST paid or payable on goods that the charity acquired, imported or brought into a participating province that will be sold by an agent or an auctioneer acting as the charity's agent;
- 100% ITCs for the GST/HST paid on goods imported by the charity on behalf of a non-resident person for use exclusively in the charity's commercial activities and sold when the charity was acting as an agent, or auctioneer and agent, for the non-resident person;
- 60% of the total of the GST/HST adjustments (e.g., for price reductions and rebates for foreign conventions, short-term accommodation in tour packages and to non-residents) or of point-of-sale rebates for the provincial component of the HST that the charity gave in the reporting period;
- the GST/HST adjusted, refunded or credited in a credit note issued by the charity in the reporting period for tax charged in excess of the GST/HST collectible on certain supplies;
- GST/HST adjustments relating to sales of capital property or real property that the charity gave for tax collected in error, bad debts it wrote off during the period, or credits for the new housing rebate; and

- 100% ITCs that the charity was entitled to claim and that it carried forward from a reporting period when it did not have to use this net tax calculation method.

Step 3 – Determine the net tax

Subtract the total in Step 2 (**line 108**) from the total in Step 1 (**line 105**). The result is the charity's net tax. Enter this amount on **line 109** of the charity's GST/HST return.

Public service bodies' (PSB) rebate

A charity that is a registrant is entitled to claim a PSB rebate of 50% of the GST/HST paid or payable on purchases for which it cannot claim ITCs, subject to certain exceptions. The PSB rebate is claimed by completing and filing Form GST66, *Application for GST/HST Public Service Bodies' Rebate and GST Self-Government Refund*, or Form GST284, which is a personalized version of Form GST66.

If a charity that is a registrant wants to use its PSB rebate to reduce any amount it owes on its GST/HST return, or to increase any refund, it must file its PSB rebate application along with its GST/HST return. If the charity does this, then it enters the rebate amount from **line 409** of its PSB rebate application on **line 111** of its GST/HST return. The amount reported on line 111 is added to any amount reported on line 110 (instalments and other payments) and totalled on line 112.

To determine a charity's final GST/HST refund or amount owing, the amount reported on line 112 is subtracted from the amount on line 109. If the difference is negative, enter the amount on line 114. This is the charity's refund. If the amount is positive, enter the amount on line 115. This is the charity's amount owing.

Note: If the charity has GST/HST to report on the purchase of real property on line 205 of the GST/HST return or GST/HST to be self-assessed on line 405 of the GST/HST return, this will affect the amount reported on lines 114 or 115.

The charity sends its PSB rebate application with its GST/HST return to the address shown on the GST/HST return.

Example – net tax calculation for charities

A charity operates week-long overnight summer camps in Manitoba for children aged 8 to 12. The charity is registered for GST/HST purposes, and it uses the net tax calculation for charities. The fees to attend the summer camps are taxable. During its reporting period, the charity built a new dining hall for use only by the campers. The charity also operates a gift shop where it makes taxable sales to the campers.

The charity's revenues and expenses are as follows:

Revenues	
Overnight camps	\$300,000 + \$15,000 GST
Donations	\$250,000
Gift shop sales	\$4,000 + \$200 GST
Total GST collected	\$15,200

Expenses	
Salaries	\$50,000
Gift shop inventory	\$3,000 + \$150 GST
Bank charges	\$600
Expenses relating to the construction of the dining hall	\$150,000 + \$7,500 GST
Food purchases	\$17,500
Utilities	\$3,500 + \$175 GST
General expenses	\$2,000 + \$100 GST
Total GST paid	\$7,925

The charity will calculate its net tax as follows:

Step 1

\$9,120 (which is 60% of the total \$15,200 GST collected) is entered on line 105 of the GST/HST return.

Step 2

The charity is eligible to claim an ITC for the GST paid on the construction of the dining hall as the real property, including the hall, is used solely by the charity for making taxable supplies. Therefore, \$7,500 is entered at line 108 of the GST/HST return as an ITC.

Step 3

The amount calculated in step 1 less the amount calculated in step 2 equals the net tax before any rebates.

$\$9,120 - 7,500 = \$1,620$ net tax. This amount is entered on line 109 of the GST/HST return.

Note: The GST paid on the other purchases is not eligible for an ITC under the net tax calculation for charities. However, the charity is eligible to claim a PSB rebate of 50% of the GST paid on its other expenses (i.e., 50% of the \$425 paid, which is \$212.50).

As previously mentioned, the charity may enter this amount on line 111 of its GST/HST return to reduce the amount owing, provided the GST/HST return and the PSB rebate application are filed and sent together.

Exceptions to using the net tax calculation for charities

Election not to use the net tax calculation for charities

A charity that meets one of the conditions listed below can elect not to use the net tax calculation for charities.

1. The charity makes supplies outside Canada in the ordinary course its business.
2. The charity makes zero-rated supplies (e.g., basic groceries, certain medical devices) in the ordinary course of its business.
3. 90% or more of the charity's supplies are taxable supplies.

To make the election, the charity completes and submits Form GST488, *Election or Revocation of an Election not to use the Net Tax Calculation for Charities*.

Revoking the election

The election not to use the net tax calculation for charities remains in effect until a request for its revocation is filed. A charity can revoke its election no earlier than one year after the election takes effect by completing and submitting Form GST488. Once a charity revokes the election, it will have to use the net tax calculation for charities.

Excluded from using the net tax calculation for charities

A designated charity cannot use the net tax calculation for charities. A designated charity is a charity that:

- provides employment assistance to individuals with disabilities;
- supplies services that are performed by such individuals to clients; and

-
- has been approved by the CRA to make its supplies of these services taxable when provided to a registrant.

A public institution cannot use the net tax calculation for charities.

Note: Charities that have elected not to use the net tax calculation for charities, designated charities, and public institutions follow the “regular method” to calculate the net tax on their GST/HST returns. Information on the regular method for calculating net tax can be found in the Guide RC4022, *General Information for GST/HST Registrants*.

This info sheet does not replace the law found in *the Excise Tax Act* (the Act) and its regulations. It is provided for your reference. As it may not completely address your particular operation, you may wish to refer to the Act or appropriate regulation, or contact any CRA GST/HST rulings office for additional information. A ruling should be requested for certainty in respect of any particular GST/HST matter. Pamphlet RC4405, *GST/HST Rulings – Experts in GST/HST Legislation*, explains how to obtain a ruling and lists the GST/HST rulings offices. If you wish to make a technical enquiry on the GST/HST by telephone, please call 1-800-959-8287.

If you are located in Quebec and wish to make a technical enquiry or request a ruling related to the GST/HST, please contact Revenu Québec by calling 1-800-567-4692. You may also visit their Web site at www.revenu.gouv.qc.ca to obtain general information.

All technical publications related to GST/HST are available on the CRA Web site at www.cra.gc.ca/gsthstech.