



Application of the GST/HST to Core Charges

This info sheet explains how the GST/HST applies to core charges for automotive parts sold by vendors who are GST/HST registrants. These charges may also be referred to as casting charges.

What are core charges

A core charge is an additional amount that may be charged by some vendors when certain automotive parts are sold to a person.

Old or failed parts such as batteries, alternators, starters, CV shafts, brake calipers, distributors, and engine blocks contain a “core” or recyclable component. These cores can be provided to the manufacturer for rebuilding or recycling. Rebuilding or remanufacturing is the process of taking used parts, completely disassembling and thoroughly cleaning them, replacing the faulty and/or worn components with new components, and restoring them to their original specification.

A vendor may choose to impose a core charge to encourage the person to bring the used part to the vendor for rebuilding or remanufacturing. Some vendors of automotive parts do not apply a core charge.

When a person purchases an automotive part and at the same time provides a used part to the vendor as a trade-in, the vendor usually applies one of the following two options for handling the core charge. The vendor can either:

- not apply a core charge, or
- apply a core charge and provide a credit equivalent to the core charge for the used part traded in at that same time.

If a person purchases an automotive part, and does not provide a used part for trade-in at the same time, the vendor may choose to add a core charge to the purchase price. When the person brings the used part

to the vendor after the initial transaction, the vendor may pay an amount to the person for the used part. If the vendor never receives or does not accept the used part, the vendor keeps the core charge amount that was added to the purchase price.

How the GST/HST applies to core charges

Where an automotive part is sold to a person and the vendor charges a core charge, the core charge forms part of the consideration payable for the sale of the part. As such, the vendor is required to charge the applicable rate of GST/HST calculated on the total consideration payable for the part, including the core charge.

However, if at the same time the part is sold the person provides the vendor with a used part as a trade-in, the special GST/HST rules for trade-ins may apply.

Trade-ins

There are special GST/HST rules that deal with trade-ins that are made at the same time a good is purchased. Under these rules, GST/HST is calculated on the difference between the consideration payable for the good being sold by the vendor and the amount given or credited to the person for the trade-in, at the time of the transaction. The trade-in rules generally apply where the person trading in the used good is not required to collect GST/HST on the supply of the used good, such as a consumer or small supplier who is not registered for the GST/HST.

Where a vendor accepts a used part as a trade-in for use in its commercial activities as full or partial consideration towards the price of a good it sells, and the person from whom the vendor accepts the used part is not required to charge GST/HST on the used part, the vendor is required to charge GST/HST

calculated on the net amount. The net amount is the consideration payable for the new good (price of good including the core charge) minus the amount allowed for the trade-in (an amount equal to the core charge).

Example 1

A consumer takes an old alternator to an auto parts vendor in New Brunswick for replacement. The vendor is registered for the GST/HST. At the time the consumer purchases the new alternator which costs \$199.95, the consumer trades in the old alternator. On the bill, the vendor adds a core charge of \$20.00 and provides a credit of \$20.00 for the old alternator.

HST at the rate of 13% is charged on the net amount of \$199.95 and equals \$25.99 for a total of \$225.94.

Where a person brings in a used part after the initial transaction, the special rules for trade-ins do not apply and GST/HST applies in accordance with the regular rules.

Where a person brings the used part to the vendor after the initial transaction, the person is selling the used part to the vendor. If the used part is recyclable and the vendor agrees to purchase the used part, the vendor will pay an amount to the person for the used part. The amount may be equal to the core charge or may be some other amount.

A person who is not a GST/HST registrant is not required to charge GST/HST to the vendor on the sale of the used part. As such, the vendor does not pay the person any GST/HST in respect of the used part. Since no GST/HST is payable, the vendor is also not entitled to claim an input tax credit (ITC) in respect of the purchase of the used part.

Example 2

A vendor in Ontario sells a garden tractor battery to a consumer for \$49.99. The vendor is registered for the GST/HST. The consumer does not bring in the old battery at the time of purchase and the vendor adds a core charge of \$15.00 to the bill.

The invoice shows \$49.99 plus the \$15.00 core charge for a total of \$64.99. HST at 13% equals \$8.45 for a total of \$73.44.

The next day the consumer brings in the old battery and the vendor pays the consumer \$15.00. The consumer is not required to charge HST on the sale and the vendor is not required to pay any HST to the consumer.

Even if the vendor pays the consumer \$16.95, the vendor is not entitled to claim an ITC.

Trade-ins by GST/HST registrants

Where a GST/HST registrant purchases an automotive part from a vendor and trades-in a used part, and the registrant is required to collect GST/HST on the supply, the trade-in rules discussed above would not apply.

In such cases, the vendor of the automotive part is required to charge GST/HST calculated on the total consideration payable for the part, including any applicable core charge, even if the vendor accepts the used part at the same time as the sale of the automotive part. The registrant is required to charge the GST/HST calculated on the consideration payable for the used part.

The special rules for barter transactions between registrants would not apply as the used part and the new part are not of the same class or kind, and they are not being acquired by both the vendor and the registrant as inventory for use exclusively in their commercial activities.

Example 3

A GST/HST registrant takes a dead battery to an auto parts retailer in Ontario for replacement. The retailer is registered for the GST/HST. The dead battery is taken from a passenger vehicle that the registrant uses exclusively in its commercial activities. At the time the registrant purchases a new battery which costs \$49.95, the registrant trades in the dead battery. On the bill, the retailer adds a core charge of \$15.00 and provides a credit of \$15.00 for the old battery.

HST at the rate of 13% is charged by the retailer on the total amount of \$64.95 and equals \$8.44 for a total of \$73.39. The registrant is also required to charge 13% HST calculated on the \$15 credited by the retailer (consideration paid for the dead battery). The HST equals \$1.95.

For additional information on the GST/HST treatment of used goods, please refer to Technical Information Bulletin B-084, *Treatment of Used Goods*.

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 centre 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 centres. If you wish to make a technical enquiry on the GST/HST by telephone, please call 1-800-959-8287.

Reference in this publication is made to supplies that are subject to the GST or the HST. The HST applies in the participating provinces at the following rates: 13% in Ontario, New Brunswick and Newfoundland and Labrador, 14% in Prince Edward Island and 15% in Nova Scotia. The GST applies in the rest of Canada at the rate of 5%. If you are uncertain as to whether a supply is made in a participating province, you may refer to GST/HST Technical Information Bulletin B-103, *Harmonized Sales Tax – Place of Supply Rules for Determining Whether a Supply is Made in a Province*.

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

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 at 1-800-567-4692. You may also visit the Revenu Québec website at www.revenuquebec.ca to obtain general information.