



Credit Card Expenses and the Registrant's Use of Factors for Claiming Input Tax Credits

Note: This policy statement supersedes the version dated July 31, 2008.

Legislative references	Section 175 and subsections 169(4) and (5) of the <i>Excise Tax Act</i>
National coding system file number	11650-6
Effective date	<ul style="list-style-type: none">• January 1, 1991 for GST;• April 1, 1997 for HST in Nova Scotia, New Brunswick and Newfoundland and Labrador;• July 1, 2010 for the HST that will come into effect in Ontario and is proposed to come into effect in British Columbia; and• July 1, 2010 for the proposed 2% increase in the provincial part of HST in Nova Scotia.

Please note that the following policy statement, although correct at the time of issue, may not have been updated to reflect any subsequent legislative changes.

Issue

Use of the factor method instead of the exact calculation method to compute the eligible input tax credits (ITCs) in relation to reimbursements for expenses incurred.

Decision

The Canada Revenue Agency (CRA) allows a registrant who is an employer, partnership, charity or public institution to use factors to calculate ITCs in respect of the tax deemed paid by the registrant on purchases made by the registrant's employees, partnership members or volunteers where credit cards have been used to make purchases.

The use of factors is intended to simplify the administrative burden registrants have because credit card receipts are often a one sum total and include gratuities, PST, QST, etc. The use of a factor simplifies the process of claiming ITCs for business on these types of business expenses. This is an administrative policy of the CRA and is not legislated. The choice of the factor method is an option for a registrant. Some registrants may prefer to use the exact calculation method.

Factors

Prior to July 1, 2006, when the rate of GST/HST was 7% and 15%, respectively, the factor allowed on credit card expenses for this period was 6/106 or 14/114.

From July 1, 2006 to December 31, 2007, when the rate of GST/HST was 6% and 14%, respectively, the factor allowed on credit card expenses was 5/105 or 13/113.

La version française de la présente publication est intitulée *Utilisation de la méthode factorielle par les inscrits qui demandent des crédits de taxe sur les intrants à l'égard des dépenses payées par cartes de crédit.*



Beginning January 1, 2008, when the rate of GST/HST became 5% and 13%, respectively, the factor allowed on credit card expenses for this period, became 4/104 or 12/112.

Effective July 1, 2010, Ontario will become a participating province with an HST rate of 13%. British Columbia also proposed to become a participating province as of that date, with a proposed HST rate of 12%. As of that date, the factor allowed for HST in Ontario will be 12/112, and the proposed factor allowed for HST in for British Columbia would be 11/111.

Effective July 1, 2010, it is proposed that the provincial part of the HST in Nova Scotia increased from 8% to 10% making the HST rate for that province 15%. As of that date, the proposed factor allowed for HST in Nova Scotia would be 14/114.

See the Appendix for a chart of GST/HST rates and factors

Discussion

The CRA will permit registrants to use factors for calculating ITCs on expenses charged to company credit cards, provided the following conditions are satisfied:

1. A card member (an employee, partner or volunteer) must have acquired the property or service for consumption or use in relation to the commercial activities of the registrant;
2. There must be one or more written agreements between the registrant, the card member and the credit card issuer stating that the card member is solely or jointly and severally liable with the registrant for the payment of all charges made on the company credit card issued to the card member;
3. The purchases of property or services recorded on the credit card statement must be all or substantially all (90% or more) taxable supplies (other than zero-rated supplies) acquired in Canada by the card member;
4. The documentary evidence used to support ITC claims must satisfy the following criteria:
 - (a) where a credit card receipt is issued in conjunction with another component of supporting documentation, both components must be obtained by the registrant before the return in which the ITC claimed is filed;
 - (b) where no other supporting documentation is issued in conjunction with a credit card receipt (e.g., gasoline purchased at a service station), the credit card receipt will constitute sufficient supporting documentation to claim an ITC; and
 - (c) the monthly credit card statement does not constitute sufficient documentary evidence to claim an ITC.

Footnote

The CRA considers a direct payment made on account by the registrant to the card issuer to be a reimbursement to a card member as long as the liability for payment of the credit card statement does not rest entirely with the registrant.

Furthermore, if only the registrant, and not the card member, is liable to pay the company credit card account, the CRA's view is that the registrant paid the expense and not the card member. Therefore, the card member is not being reimbursed by the registrant for any amount.

Examples

Example 1

Facts

1. ABC Inc. (the company), in a non-participating province, is a GST/HST registrant with a monthly reporting period.
2. The company provides a credit card to each manager and salesperson (i.e., card member) in its marketing division.
3. The purpose of the company credit card is to allow the company's sales force to purchase minor business related items without being out of pocket.
4. Typical business expenses include motor fuel, meals, entertainment and accommodations which include PST and gratuities.
5. The company receives a monthly statement from the credit card issuer for purchases made on the company credit cards and pays the statement amount directly to the card issuer by the due date, 30 days after the statement date.
6. Every three months each salesperson prepares an expense report to account for any out-of-pocket expenses incurred during that period, and provides to the company the original expense receipts (and supporting documentation, if any) paid for with the company credit card. Managers who use the credit card submit their expenses reports monthly.
7. In an effort to streamline its procurement practices, the company has also introduced a "low dollar" purchasing program which allows the managers of the company to use the company credit card to purchase business related items to a maximum value of \$500.
8. Pursuant to the written agreements between the company and the credit card issuer, the company is solely responsible for the payment of all credit card charges made by the company's sales force and managers.
9. The salesperson submits an expense report for January 1, 2008 to March 31, 2008, supported with the original expense receipts paid for with the company credit card.

Issue

For purposes of claiming ITCs, is the company permitted to apply the factor approach of 4/104 to its taxable expenses described on the expense reports submitted by the salespersons?

Decision

The company is not permitted to use the factor approach to calculate its ITC entitlement. The payment by the company of the credit card charges to the card issuer is not considered to be a reimbursement since the company is solely responsible per the signed agreement for payment of all credit card charges. For the factor approach to be used, the card member must be solely or jointly and severally liable with the registrant for the payment of all credit card charges.

Example 2

Facts

Facts 1 to 7 and 9 are the same as provided in Example 1, and fact 8 is new, as follows:

8. Pursuant to written agreements between the registrant, the card member and the credit card issuer, the card member is solely or jointly and severally liable with the registrant for the payment of all charges made on the company credit card issued to the card member.

Issue

For purposes of claiming ITCs, is the company permitted to apply the factor approach of 4/104 to its taxable expenses described on the expense reports submitted by the salespersons?

Decision

The company will be permitted to use the factor of 4/104 to calculate its ITC entitlement. The payment by the company of the credit card charges to the card issuer is considered to be a reimbursement since the company is not solely responsible per the signed agreement for payment of all credit card charges. The card member is solely or jointly and severally liable with the registrant for the payment of all credit card charges.

Example 3**Facts**

Facts 1 to 7 are the same as provided in Example 1, and facts 8, 9 and 10 are new, as follows:

8. Pursuant to written agreements between the registrant, the card member and the credit card issuer, the card member is solely or jointly and severally liable with the registrant for the payment of all charges made on the company credit card issued to the card member.
9. In March 2006, the office manager for one of the company's sales offices located in a non-participating province, purchased various office supplies from several office supply distributors and submitted an expense report in the amount of \$459 which included GST and PST and was supported with all receipts. All purchases had been paid with the company credit card.
10. In March 2006, similar expenses were made by the office manager of the sales office located in a participating province. The office manager submitted an expense report in the amount of \$359 which included HST and was supported with all receipts. All purchases had been made with the company credit card.

Issue

For purposes of claiming ITCs, is the company permitted to apply the factor approach to its taxable expenses described on the monthly expense reports submitted by the office managers?

Decision

Yes. Although the company makes direct payment to the card issuer for all charges on the company credit card, the CRA considers this to be a reimbursement as the company is not solely responsible for the payment of the charges. The card members are jointly and severally responsible for the payment according to the agreement with the card issuer.

The company will have the option of calculating its input tax credit entitlement using the factor approach on taxable expenses based on credit card receipts and supporting documentation notwithstanding that the statement amounts are paid directly to the card issuer by the company.

Furthermore, to be eligible for an ITC using the tax factor approach, the reimbursement must be for goods and services all or substantially all (90% or more) of which are taxable supplies acquired in Canada by the card members pursuant to section 175 of the ETA. The purchased office supplies satisfy all of these criteria.

The factor allowed on credit card expenses incurred in the non-participating province for this period is 6/106. An ITC in the amount of $\$459 \times 6/106$ would be allowed.

The factor allowed on credit card expenses incurred in the participating province for this period is 14/114. An ITC in the amount of $\$359 \times 14/114$ would be allowed.

Example 4

Facts

Facts 1 to 7 are the same as provided in Example 1, and facts 8, 9 and 10 are new, as follows:

8. Pursuant to written agreements between the registrant, the card member and the credit card issuer, the card member is solely or jointly and severally liable with the registrant for the payment of all charges made on the company credit card issued to the card member.
9. In March 2007, the office manager for one of the company's sales offices, located in a non-participating province, purchased various office supplies from several office supply distributors and submitted an expense report in the amount of \$459 which included GST and PST and was supported with all receipts. All purchases had been paid with the company credit card.
10. In March 2007 similar expenses were made by the office manager of the sales office located in a participating province. The office manager submitted an expense report in the amount of \$359 which included HST and was supported with all receipts. All purchases had been made with the company credit card.

Issue

For purposes of claiming ITCs, is the company permitted to apply the factor approach to its taxable expenses described on the monthly expense reports submitted by the office managers?

Decision

Yes. Although the company makes direct payment to the card issuer for all charges on the company credit card, the CRA considers this to be a reimbursement as the company is not solely responsible for the payment of the charges. The card members are jointly and severally responsible for the payment according to the agreement with the card issuer.

The company will have the option of calculating its input tax credit entitlement using the factor approach on taxable expenses based on credit card receipts and supporting documentation notwithstanding that the statement amounts are paid directly to the card issuer by the company.

Furthermore, to be eligible for an input tax credit using the tax factor approach, the reimbursement must be for goods and services all or substantially all (90% or more) of which are taxable supplies acquired in Canada by the card members pursuant to section 175 of the ETA. The purchased office supplies satisfy all of these criteria.

The factor allowed on credit card expenses incurred in the non-participating province for this period is 5/105. An ITC in the amount of $\$459 \times 5/105$ would be allowed.

The factor allowed on credit card expenses incurred in the participating province for this period is 13/113. An ITC in the amount of $\$359 \times 13/113$ would be allowed.

Example 5

Facts

Facts 1 to 7 are the same as provided in Example 1, and facts 8, 9 and 10 are new, as follows:

8. Pursuant to written agreements between the registrant, the card member and the credit card issuer, the card member is solely or jointly and severally liable with the registrant for the payment of all charges made on the company credit card issued to the card member.

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9. In February 2008, the office manager for one of the company's sales offices, in a non-participating province, purchased various office supplies from several office supply distributors and submitted an expense report in the amount of \$459 which included GST and PST and supported with all receipts. All purchases had been paid with the company credit card.
 10. In February 2008, similar expenses were made by the office manager of the sales office located in a participating province. The office manager submitted an expense report in the amount of \$359 which included HST and was supported with all receipts. All purchases had been made with the company credit card.

Issue

For purposes of claiming ITCs, is the company permitted to apply the factor approach to its taxable expenses described on the monthly expense report statements submitted by the office managers?

Decision

Yes. Although the company makes direct payment to the card issuer for all charges on the company credit card, the CRA considers this to be a reimbursement as the company is not solely responsible for the payment of the charges. The card members are jointly and severally responsible for the payment according to the agreement with the card issuer.

The company will have the option of calculating its input tax credit entitlement using the factor approach on taxable expenses based on credit card receipts and supporting documentation notwithstanding that the statement amounts are paid directly to the card issuer by the company.

Furthermore, to be eligible for an ITC using the tax factor approach, the reimbursement must be for goods and services all or substantially all (90% or more) of which are taxable supplies acquired in Canada by the card members pursuant to section 175 of the ETA. The purchase of office supplies satisfies all of these criteria.

The factor allowed on credit card expenses incurred in the non-participating province for this period is 4/104. An ITC in the amount of $\$459 \times 4/104$ would be allowed.

The factor allowed on credit card expenses incurred in the participating province for this period is 12/112. An ITC in the amount of $\$359 \times 12/112$ would be allowed.

Example 6

Facts

Facts 1 to 7 are the same as provided in Example 1, and facts 8, 9 and 10 are new, as follows:

8. Pursuant to written agreements between the registrant, the card member and the credit card issuer, the card member is solely or jointly and severally liable with the registrant for the payment of all charges made on the company credit card issued to the card member.
9. In October 2010, the office manager for one of the company's sales offices in British Columbia, a proposed participating province effective July 1, 2010, purchased various office supplies from several office supply distributors and submitted an expense report in the amount of \$459, which included HST and supported with all receipts. All purchases had been paid with the company credit card.
10. In October 2010, similar expenses were made by the office manager of the sales office located in Ontario, a participating province effective July 1, 2010. The office manager submitted an expense report in the amount of \$359, which included HST and was supported with all receipts. All purchases had been made with the company credit card.

11. In October 2010, similar expenses were made by the office manager of the sales office located in Nova Scotia. The office manager submitted an expense report in the amount of \$419, which included HST (at the proposed increased rate of 15%) and was supported with all receipts. All purchases had been made with the company credit card.

Issue

For purposes of claiming ITCs, is the company permitted to apply the factor approach to its taxable expenses described on the monthly expense report statements submitted by the office managers?

Decision

Yes. Although the company makes direct payment to the card issuer for all charges on the company credit card, the CRA considers this to be a reimbursement as the company is not solely responsible for the payment of the charges. The card members are jointly and severally responsible for the payment according to the agreement with the card issuer.

The company will have the option of calculating its input tax credit entitlement using the factor approach on taxable expenses based on credit card receipts and supporting documentation notwithstanding that the statement amounts are paid directly to the card issuer by the company.

Furthermore, to be eligible for an ITC using the tax factor approach, the reimbursement must be for goods and services all or substantially all (90% or more) of which are taxable supplies acquired in Canada by the card members pursuant to section 175 of the ETA. The purchase of office supplies satisfies all of these criteria.

The proposed factor allowed on credit card expenses incurred in British Columbia, a proposed participating province, for this period is 11/111. An ITC in the amount of $\$459 \times 11/111$ would be allowed. The registrant, if a large business, would be subject to the recapture of input tax credit (RITC) rules where the expense report relates to purchase of specified property and services.

The factor allowed on credit card expenses incurred in the participating province of Ontario for this period is 12/112. An ITC in the amount of $\$359 \times 12/112$ would be allowed. The registrant, if a large business, will be subject to the recapture of input tax credit (RITC) rules where the expense report relates to purchase of specified property and services.

The proposed factor allowed on credit card expenses incurred in Nova Scotia for this period would be 14/114. An ITC in the amount of $\$419 \times 14/114$ would be allowed.

GST and HST rates and factors allowed

Period	GST	Factor	HST	Factor
Prior to July 1, 2006				
• non-participating provinces	7%	6/106		
• participating provinces			15%	14/114
July 1, 2006 to December 31, 2007				
• non-participating provinces	6%	5/105		
• participating provinces			14%	13/113
Effective January 1, 2008				
• non-participating provinces	5%	4/104		
• participating provinces			13%	12/112
Effective January 1, 2010				
• non-participating provinces	5%	4/104		
• participating provinces				
◦ New Brunswick , Newfoundland and Labrador, Ontario			13%	12/112
◦ British Columbia			12%	11/111
◦ Nova Scotia			15%	14/114

Notes

- Before July 1, 2010, Nova Scotia, New Brunswick and Newfoundland and Labrador were the only participating provinces.
- Ontario will become a participating province effective July 1, 2010 and British Columbia has proposed to become a participating province effective that date.
- Nova Scotia has proposed to raise the provincial part of the HST from 8% to 10% effective July 1, 2010, which would make the HST rate 15 % in that province.