



Allowances

NOTE: This version replaces GST Memorandum 400-3-11, *Allowances and Reimbursements* dated February 1992.

This memorandum explains the treatment of allowances paid to employees, members of a partnership or volunteers of a charity or public institution under the *Excise Tax Act*, and the subsequent eligibility rules for claiming input tax credits or public service body rebates for persons who pay these allowances.

Disclaimer:

The information in this memorandum 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 Canada Revenue Agency 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 at 1-800-567-4692. You may also visit the Revenu Québec Web site to obtain general information.

Note:

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, 15% in Nova Scotia, and 12% in British Columbia. 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 legislative references in this memorandum refer to the *Excise Tax Act* unless otherwise indicated.

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La version française de la présente publication est intitulée *Indemnités*.



Meaning of allowance

1. For purposes of the Act, the term “allowance” has the same meaning that it has for income tax purposes.
2. An allowance is any periodic or other similar payment that a person receives from another person without having to account for its use. An amount constitutes an allowance for purposes of sections 174, 236, 253 and 259 where the amount meets all of the following criteria:
 - the amount paid is a predetermined amount;
 - the amount is paid for a certain purpose;
 - the amount paid is at the complete disposition of the person receiving the payment; and
 - there is no requirement for the person receiving the payment to repay or account for its use. The person receiving the payment does not have to demonstrate that the amount was actually spent.

Example

An employer pays its employee \$100 per month for the use of the employee’s personal computer. The employee is not required to provide any receipts and is free to spend the \$100 each month as desired. This monthly payment constitutes an allowance.

Amounts that are not allowances

Reimbursement

3. A reimbursement is a payment made by one person to repay another person for amounts spent. An amount constitutes a reimbursement where the amount is fully accounted for by the person receiving the payment (i.e., evidenced by supporting vouchers or records). Consequently, an allowance is not a reimbursement. Detailed information on reimbursements is available in Memorandum 9.4, *Reimbursements*.

Moving allowance up to \$650

4. The CRA follows the income tax administrative policy that treats a moving allowance of up to \$650 as a non-taxable reimbursement to the employee as long as the employee certifies that the amount was spent on moving expenses. Consequently, this amount is considered to be a reimbursement.

Moving allowance in excess of \$650

5. The amount of a moving allowance in excess of \$650, which is required to be included in an individual’s income as a taxable benefit, is not considered to be an allowance to which section 174 applies.

Purpose of section 174 and eligibility requirements

6. Section 174 enables a person who is an employer, partnership, charity or public institution to claim an input tax credit (ITC) or public service body rebate in respect of allowances paid for certain expenses to the same extent as would have been the case had the person incurred the expense directly. When the conditions under section 174 are met, the person who pays the allowance is deemed to have paid the GST/HST in respect of the supply acquired by employees, partners or volunteers and any

consumption or use of the property or services is deemed to be consumption or use by the person and not by the employee, partner or volunteer.

First condition: the allowance is paid to an employee, partner or volunteer

Subparas 174(a)(i), (ii), (iii)

7. The provisions of section 174 apply to a person who pays an allowance
- to an employee of the person,
 - where the person is a partnership, to a member of the partnership, or
 - where the person is a charity or public institution, to a volunteer who gives services to the charity or public institution.

Meaning of employee
ss 123(1)

8. The term “employee” includes an officer.

Meaning of employer
ss 123(1)

9. The term “employer”, in relation to an officer, is the person from whom the officer receives remuneration.

Meaning of charity
ss 123(1)

10. The term “charity” means a registered charity or a registered Canadian amateur athletic association within the meaning assigned to those expressions by subsection 248(1) of the *Income Tax Act* (ITA), but does not include a public institution.

Meaning of public institution
ss 123(1)

11. The term “public institution” means a registered charity (within the meaning assigned by subsection 248(1) of the ITA) 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.

Volunteer

12. Section 174 applies to allowances paid to volunteers who give services to a charity or a public institution. It does not apply to volunteers of other types of organizations.

Volunteer or employee

13. An individual who gives services as a volunteer to a charity or public institution is not considered an employee of the charity or public institution. However, an employee of a charity or public institution may, outside of their employment contract, give services to that charity or public institution as a volunteer. It must be determined by the facts of the case if that individual was performing duties in the

course of their office or employment with the charity or public institution or if the individual was providing services.

Allowance paid to any other person

14. If a person pays an allowance to any person other than the persons identified in paragraph 7, then the provisions of section 174 do not apply. However, the amount may be consideration for a taxable supply for which an ITC may be claimed if the requirements for an ITC set out in section 169 are met or a public service body rebate if the requirements of section 259 are met.

Example

A film production company pays a per diem allowance to self-employed actors and technicians who are required to work outside the city in which they reside. Even though the production company may consider these individuals to be employees, if, in fact, these individuals are self-employed, the provisions of section 174 do not apply.

Second condition: the allowance is paid for taxable supplies or the use of a motor vehicle

Subpara 174(a)(iv)(v)

15. The provisions of section 174 apply when the allowance paid to the employee, partner or volunteer is for

- supplies of property or services all or substantially all (90% or more) of which are taxable supplies (other than zero-rated supplies) acquired in Canada by the employee, partner or volunteer in relation to activities engaged in by the person; or
- the use of a motor vehicle in Canada in relation to activities engaged in by the person.

16. The provisions of section 174 apply only if all or substantially all of the taxable (other than zero-rated) supplies of property or services were purchased in Canada or were for the use of a motor vehicle in Canada.

One or more allowances

17. It is a question of fact whether one or more allowances have been paid. Where one allowance is paid but it does not meet the requirement that 90% or more of the taxable (other than zero-rated) supplies are acquired in Canada, or are for the use of a motor vehicle in Canada, then section 174 does not apply to this allowance.

No apportionment of costs when one allowance is provided

18. No apportionment of costs between expenses incurred inside and outside Canada or between exempt or zero-rated supplies is possible when only one allowance has been given.

“In relation to”

19. It is a question of fact whether the supplies were “in relation to” the activities of the person. However, there must be a direct connection between the supplies acquired and the activities engaged in by the person.

Purpose of the allowance

20. The purpose of the allowance is also a question of fact. For example, if the allowance is for the purpose of defraying travel expenses for a sales representative in both Canada and the United States, then the test to determine if the allowance is for the use of a motor vehicle in Canada will not be met.

Establishing purpose

21. The CRA considers a variety of factors to determine if it is reasonable that an allowance was for its stated purpose. Such factors may include whether or not the amount could reasonably pay for the expenses for which the allowance was supposedly given and whether it was possible for the person who receives the allowance to purchase the type of property or services for which the allowance was supposedly given. Where the amount of the allowance could not reasonably be considered adequate to discharge a certain type of expense, the CRA may question whether the allowance was for the stated purpose.

Not necessary to demonstrate how the allowance was spent

22. It is not necessary to demonstrate that the allowance was actually spent on the expenses that it was designed to cover. For example, if an employer provides an employee with an accommodation allowance of \$150 per night to cover hotel accommodations while travelling on business and the employee stays with a relative instead, the CRA will accept that the allowance was for the purpose of acquiring short-term accommodation in a hotel.

Spousal travel allowance

23. Where an employer, partnership, charity or public institution provides an individual with an allowance so that a spouse can accompany the individual on a business trip, whether the spousal allowance would be considered to be in relation to the activities of the person would depend on whether the spouse was engaged in activities for the person during the business trip. If the spouse was performing official functions, the allowance may be in relation to the activities of the person. However, the allowance would still have to be for all or substantially all taxable supplies (other than zero-rated supplies) acquired in Canada in relation to the activities of the person. Therefore, if a portion, but not 90% or more, of the supplies was acquired in relation to the activities of the person, then section 174 would not apply.

Motor vehicle ss 248(1) of the ITA

24. The term “motor vehicle” means an automotive vehicle designed or adapted to be used on highways and streets but does not include

- a trolley bus, or
- a vehicle designed or adapted to be operated exclusively on rails.

Third condition: the amount of the allowance is deductible for income tax purposes

Para 174(b)

25. Section 174 apply when the amount in respect of the allowance is deductible in computing the income of the person paying the allowance for income tax purposes, or would be deductible if the person paying the allowance were a taxpayer under the ITA and the activity were a business.

26. The full amount of the allowance does not have to be deductible for income tax purposes, but some of the amount must be.

Fourth condition – the travel and motor vehicle allowance is reasonable

Travel and motor vehicle expenses
para 174(c)

27. Where a person pays an allowance to an employee, partner or volunteer to which subparagraph 6(1)(b)(v), (vi), (vii) or (vii.1) of the ITA applies, additional conditions must be satisfied.

Exclusions from income

28. Under subparagraph 6(1)(b)(v), (vi), (vii) or (vii.1) of the ITA, the following allowances are excluded from an income from office or employment:

- reasonable allowances for travel expenses received by an employee from the employer in connection with the selling of property or negotiating of contracts for the employee's employer;
- reasonable allowances received by a minister or clergyman in charge of or ministering to a diocese, parish or congregation for expenses for transportation incident to the discharge of the duties of that office or employment;
- reasonable allowances for travel expenses (other than allowances for the use of a motor vehicle) received by an employee (other than an employee employed in connection with the selling of property or the negotiating of contracts for the employer) from the employer for travelling away from
 - (A) the municipality where the employer's establishment at which the employee ordinarily worked or to which the employee ordinarily reported was located, and
 - (B) the metropolitan area, if there is one, where that establishment was located,in the performance of the duties of the employee's office or employment; and
- reasonable allowances for the use of a motor vehicle received by an employee (other than an employee employed in connection with the selling of property or the negotiating of contracts for the employer) from the employer for travelling in the performance of the duties of the office or employment.

Travel allowances

29. Travel allowances can include reasonable expenses for transportation, accommodation and meals.

Motor vehicle allowances

30. The most common type of motor vehicle allowance is for the use and operation of a motor vehicle owned by the employee, partner or volunteer.

Para 174(c)

31. In the case of an allowance to which subparagraph 6(1)(b)(v), (vi), (vii), or (vii.1) of the ITA applies, the person paying the allowance must ensure that:

- the allowance is a reasonable allowance for the purposes of that subparagraph of the ITA; and

-
- at the time the allowance was paid, the person considered it to be a reasonable allowance, and it was reasonable for the person to have considered it to be a reasonable allowance for purposes of the ITA.

Partners and volunteers subpara 174(c)(ii)

32. Where an allowance for travel or for the use of a motor vehicle is paid to a member of a partnership or to a volunteer of a charity or public institution, in order for the provisions under subparagraph 6(1)(b)(v), (vi), (vii), or (vii.1) of the ITA to apply, the partner or volunteer is treated as if the partner or volunteer is an employee of the partnership, charity or public institution, as the case may be.

Reasonable allowance

33. It is a question of fact as to whether a travel or motor vehicle allowance is reasonable. This determination for income tax is made on a case-by-case basis. Where it has been determined that a travel or motor vehicle allowance is reasonable for income tax purposes, the CRA accepts this determination for GST/HST purposes.

Reasonable allowance

34. Under subparagraphs 6(1)(b)(x) and (xi) of the ITA, an allowance paid to an employee for the use of a motor vehicle in connection with the activities of the employer is considered to be reasonable only if the following conditions apply:

- the allowance is based only on the number of kilometres driven in a year in connection with, or in the course of, an office or employment;
- the rate per kilometre is reasonable; and
- the employee is not reimbursed for expenses related to the same use of the motor vehicle, other than a reimbursement for supplemental business insurance, toll or ferry charges, not already included in the allowance.

Paying motor vehicle allowances

35. Generally, an allowance for the use of a motor vehicle is paid on:

- a per kilometre basis;
- a flat or fixed amount; or
- a combination of an amount calculated on a per kilometre basis and a flat or fixed amount.

Per kilometre allowance subpara 6(1)(b)(x) of the ITA

36. A per kilometre motor vehicle allowance could be considered to be reasonable for income tax purposes and usually satisfies the conditions under section 174.

Flat or fixed allowance

37. A flat or fixed allowance for the use of a motor vehicle does not satisfy the criteria for a reasonable allowance under the ITA. Consequently, the conditions of section 174 would not be satisfied.

Combination of per kilometre and flat or fixed allowance

38. Where a person pays both a per kilometre allowance and a fixed or flat allowance for the same purpose, the CRA considers that there is only one allowance. As a result, the entire allowance amount is considered to be unreasonable. Consequently, the conditions under section 174 would not be satisfied.

Per kilometre allowance and flat allowance

39. Where the amounts are for different purposes (e.g., one amount is for out of town travel and one is for travel within the metropolitan area), the two amounts are considered to be separate allowances. Therefore, the per kilometre allowance could be considered to be reasonable, while the flat or fixed allowance would not be considered reasonable.

Minimum amount per trip

40. Where a minimum amount is paid per trip, the CRA would take into consideration whether this minimum amount was meant to defray expenses.

41. For further information on allowances for travel purposes and motor vehicles, refer to Interpretation Bulletin IT-522, *Vehicle, Travel and Sales Expenses of Employees*.

Allowance considered not to be reasonable

42. Where an allowance under subparagraph 6(1)(b)(v), (vi), (vii), or (vii.1) of the ITA is determined to be not reasonable at the time it was paid, (i.e., either unreasonably high or unreasonably low), the provisions of section 174 do not apply.

Employee/partner rebate

43. Where an allowance was considered not to be reasonable at the time it was paid, the employee or partner may be eligible for a GST/HST rebate on the tax paid on their expenses. More information is available in Guide T4044, *Employment Expenses*, and RC4091, *GST/HST Rebate for Partners*.

Calculation of tax deemed paid

Deemed supply and deemed tax paid paras 174(d) and (f)

44. When the conditions under section 174 are met, the person paying the allowance is deemed to have received a supply of the property or service that the employee, partner or volunteer received and to have paid tax in respect of this supply.

Deemed consumption or use para 174(e)

45. Any consumption or use of the property or service by the employee, partner or volunteer is deemed to be consumption or use by the employer, partnership, charity or public institution, as the case may be, and not by the employee, partner or volunteer.

Meaning of consumption and use

46. The CRA considers that:

- the term “consumption” is the act or instance of consuming or the process of being consumed; for example, fuel is consumed in the operation of an internal combustion engine; and
- the term “use” refers to the act or practice of using or employing something. The term “use” stresses the practicality of the end result or purpose for which something was acquired and the purpose for which the property was acquired and employed.

Calculation of tax deemed paid

para 174(f) and s 3 of the *New Harmonized Value-added Tax System Regulations, No. 2*

47. For allowances paid on or after July 1, 2010, and where the conditions of section 174 are met, the employer, partnership, charity or public institution, as the case may be, is deemed to have paid, at the time the allowance is paid, tax in respect of the supply equal to the amount determined by the formula

$$A \times (B/C)$$

where

A is the amount of the allowance,

B is either

- (i) when all or substantially all of the supplies for which the allowance is paid were made in participating provinces, or the allowance is paid for the use of the motor vehicle in participating provinces
 - (a) if all or substantially all of the supplies for which the allowance is paid were made in a particular participating province or if the allowance is paid for the use of the motor vehicle and all or substantially all of that use is in a particular participating province, the percentage is the total of the rate set out in subsection 165(1) and the tax rate for that particular participating province; and
 - (b) unless paragraph (a) applies, if all or substantially all of the supplies for which the allowance is paid were made in two or more participating provinces or if the allowance is paid for the use of the motor vehicle and all or substantially all of that use is in two or more participating provinces, the percentage is the total of the rate set out in subsection 165(1) and the lowest tax rate among the tax rates for those participating provinces.
- (ii) in any other case, the rate set out in subsection 165(1), and

C is the total of 100% and the percentage determined for B.

48. The appendix provides the tax fractions an employer, partnership, charity or public institution uses to calculate the tax deemed paid on supplies for which an allowance is paid.

Example

An employer located in Alberta pays a \$200 allowance to an employee to attend a business meeting that is to be held in Ottawa, Ontario. The allowance is intended to cover supplies of property or services of which 90% or more are taxable, and that are acquired in Ontario.

At the time the allowance is paid, tax in respect of the supply is equal to the amount determined by the formula

$$A \times (B/C)$$

where

A is \$200 (the amount of the allowance)

B is 13 (the total of 5% and the 8% provincial rate for Ontario*)

C is 113 (the total of 100% and the percentage determined for B)

Therefore, the HST deemed paid by the employer is \$23.01 ($\$200 \times 13/113$).

* The 8% provincial rate for Ontario is used to calculate Element B since all or substantially all of the supplies for which the allowance is paid are made in Ontario.

Example

A charity located in Nova Scotia pays its volunteer a \$100 allowance for the use of her car in relation to activities engaged in by the charity. The car is used equally in Nova Scotia and New Brunswick. The volunteer is not required to provide any receipts or documentation to the charity or to account for the allowance and the conditions of section 174 are satisfied. Therefore, at the time the allowance is paid, tax in respect of the supply is equal to the amount determined by the formula

$$A \times (B/C)$$

where

A is \$100 (the amount of the allowance)

B is 13 (the total of 5% and 8% provincial rate for New Brunswick*)

C is 113 (the total of 100% and the percentage determined for B)

Therefore, the HST deemed paid by the employer is \$11.50 ($\$100 \times 13/113$).

*The 8% provincial rate for New Brunswick is used to calculate Element B because all or substantially all of the use of the car is in two participating provinces and New Brunswick has the lowest tax rate.

ITC and rebate eligibility

ITC eligibility
ss 169(1)

49. Where an employer, partnership, charity or public institution paying the allowance to an employee, partner or volunteer is a registrant, the employer, partnership, charity or public institution may be eligible to claim an ITC for the GST/HST deemed paid in respect of the property or services to the extent that the deemed consumption or use is consumption or use in the course of the person's commercial activities. Charities are required to use the "net tax calculation for charities". Consequently, they cannot claim ITCs for the GST/HST paid or payable on most of their purchases. However, if a charity meets certain conditions, it may elect not to use the "net tax calculation for charities".

Rebate for charities and public institutions s 259

50. Where a charity or public institution paying the allowance to a volunteer is not entitled to an ITC (i.e., the charity or public institution is not a registrant, the property or services are not consumed or used in the course of its commercial activities, or the charity is limited in the ITCs that it can claim because of the “net tax calculation for charities”), the charity or public institution may be eligible to claim a public service body rebate for the GST/HST paid in respect of the supply. However, a public service body rebate is not available if the deemed GST/HST paid was in respect of a non-eligible property or service.

Supplies acquired

51. Since section 174 applies (except in the case of the use of a motor vehicle) when the allowance was for supplies acquired by the employee, partner or volunteer, the employer, partnership, charity or public institution is not eligible to claim an ITC or apply for a rebate until such time as it is reasonable to consider that the supplies have been acquired. For example, if a registrant who is a monthly filer paid an allowance to an employee for the upcoming month on the last day of the registrant’s reporting period, the registrant could only claim the ITC in its net tax for the following month.

Large businesses in Ontario and British Columbia

52. If a large business pays an allowance to an employee or a partner in circumstances where ITCs would be available to the large business in respect of that allowance, the large business is generally required to recapture the provincial part of those ITCs to the extent that the allowance is attributable to specified property and services. For more information, see GST/HST Technical Information Bulletin B-104, *Harmonized Sales Tax – Temporary Recapture of Input Tax Credit in Ontario and British Columbia*.

Meals and entertainment restriction

53. If it is determined that the person paying the allowance is entitled to an ITC in respect of the allowance, and that all or some of the taxable supplies for which the allowance is paid are for food, beverages, and entertainment, the recapture rules under subsection 236(1) may apply. However, the recapture rule does not apply to charities and public institutions. For more information on the ITC limitations in respect of food, beverages, and entertainment, refer to GST/HST Memorandum 8.1, *General Eligibility Rules*.

Taxable benefits

54. Pursuant to section 174, an employer is permitted to recover by way of an ITC or rebate the GST/HST paid by an employee on expenses, which, if incurred directly by the employer, would be recoverable as ITCs or rebates. An allowance that results in a taxable benefit to the individual under the ITA is for the personal benefit of the individual and is, in reality, remuneration or income of the individual. As income, the payment is not subject to GST/HST, and therefore not eligible for purposes of determining an ITC or rebate entitlement.

Documentary requirements

Exemption from general requirements ss 169(5)

55. Persons who claim ITCs or rebate for the GST/HST deemed paid on supplies or use of a motor vehicle for which an allowance is paid to an employee, partner or volunteer may be exempt from the general documentary and information requirements if they maintain books and records that contain the following information:

- the name of the employee, partner or volunteer who received the allowance;
- the total amount of the allowance paid to each employee, partner or volunteer;
- the total GST/HST deemed to have been paid by the employer, partnership, charity or public institution;
- the reporting period in which the allowance was paid; and
- the nature of the allowance, supply or expense.

56. Detailed information on the rules respecting documentary requirements for claiming ITCs will be available in Memorandum 8.4, *Documentary Requirements for Claiming Input Tax Credits*.

Documentary requirements for rebates ss 286(1)

57. Persons who claim rebates for the deemed tax paid on allowances are required under subsection 286(1) to maintain adequate books and records in English or French to enable verification of the amount of the rebate. Detailed information on books and records is available in GST/HST Memorandum 15.1, *General Requirements for Books and Records*, and 15.2, *Computerized Records*.

Enquiries by telephone

Technical enquiries on the GST/HST:	1-800-959-8287
General enquiries on the GST/HST:	1-800-959-5525 (Business Enquiries)
If you are located in Quebec:	1-800-567-4692 (Revenu Québec)

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

Appendix

The following chart provides the tax fraction an employer, partnership, charity or public institution uses to calculate the tax deemed paid on supplies for which an allowance is paid.

	Supplies made in	Tax fraction of the allowance
Allowance paid on or after July 1, 2010 (see note below)	Nova Scotia	15/115 (if 90% or more of the supplies for which the allowance is paid were made in Nova Scotia or if the allowance is paid for the use of the motor vehicle and 90% or more of that use is in Nova Scotia)
	<ul style="list-style-type: none"> • New Brunswick • Newfoundland and Labrador • Ontario 	13/113 (if 90% or more of the supplies for which the allowance is paid were made in these provinces or if the allowance is paid for the use of the motor vehicle and 90% or more of that use is in these provinces)
	British Columbia	12/112 (if 90% or more of the supplies for which the allowance is paid were made in British Columbia or if the allowance is paid for the use of the motor vehicle and 90% or more of that use is in British Columbia)
	in any other cases	5/105
Allowance paid on or after January 1, 2008 and before July 1, 2010	<ul style="list-style-type: none"> • Nova Scotia • New Brunswick • Newfoundland and Labrador 	13/113 (where 90% or more of the supplies for which the allowance is paid were made in participating provinces, or if the allowance is paid for the use of a motor vehicle in the participating provinces)
	in any other cases	5/105
Allowance paid on or after July 1, 2006 and before January 1, 2008	<ul style="list-style-type: none"> • Nova Scotia • New Brunswick • Newfoundland and Labrador 	14/114 (where 90% or more of the supplies for which the allowance is paid were made in participating provinces, or if the allowance is paid for the use of a motor vehicle in the participating provinces)
	in any other cases	6/106

Note: If 90% or more of the supplies for which the allowance is paid were made in two or more participating provinces or if the allowance is paid for the use of the motor vehicle and 90% or more of that use is in two or more participating provinces, the percentage is the total of 5% and the lowest tax rate among the tax rates for those participating provinces.