



## Direct Selling Industry – The Alternate Collection Method for Approved Direct Sellers and Approved Distributors

Generally, businesses in the direct selling industry sell their products either directly to consumers through commission-based sales representatives or to independent sales contractors (ISCs) who, in turn, sell the products to other ISCs of the direct seller or to purchasers.

To simplify the operation of the GST/HST, two methods (the Network Sellers Method and the Alternate Collection Method) are available to businesses in the direct selling industry. Depending on their business structure, they may qualify to use one or both methods.

The Network Sellers Method (NSM) is available to businesses in the direct selling industry that sell their products to consumers through sales representatives who receive commissions for arranging for the sales of the products. The NSM rules are explained in GST/HST Info Sheet GI-052, *Direct Selling Industry – The Network Sellers Method for Network Sellers and Sales Representatives*.

The Alternate Collection Method (ACM) is available to businesses in the direct selling industry that sell their products to distributors or ISCs who, in turn, sell the products to other ISCs of the direct seller or to purchasers.

This info sheet explains how the ACM applies to direct sellers and to distributors that have been granted approval to use the ACM. It includes information on how direct sellers apply, either alone or jointly with one or more of their distributors, for approval to use the method.

For information on how the ACM applies to ISCs, including distributors that have not been granted

approval to use the ACM, refer to GST/HST Info Sheet GI-126, *Direct Selling Industry – The Alternate Collection Method for Independent Sales Contractors*.

Meaning of terms used in this info sheet

“Approved direct seller” means a registrant direct seller that has been granted approval to use the ACM.

“Approved distributor” means a registrant distributor that has been granted approval to use the ACM.

“Direct seller” means a person that sells exclusive products to ISCs.

“Distributor” means an ISC that purchases a direct seller’s exclusive products and sells some or all of those products to other ISCs of the direct seller.

“Exclusive product” means any personal property that a direct seller acquires, manufactures, or produces for sale to ISCs who ultimately sell, or intend to sell, the property to purchasers.

“Independent sales contractor” (ISC) means a person that:

- is not an agent or an employee of a direct seller or of a distributor;
- has an agreement to purchase a direct seller’s exclusive products from the direct seller or a distributor;
- purchases a direct seller’s exclusive products for resale to other ISCs of the direct seller or to purchasers who are not acquiring the products for resale; and

- does not solicit sales or sell a direct seller’s exclusive products primarily (more than 50%) at a fixed place of business, except if it is the ISC’s home.

Therefore, an ISC is a person who purchases a direct seller’s exclusive products and sells the products to other ISCs of the direct seller or to purchasers. A person who does not meet this requirement is not an ISC for the purposes of the ACM, even if this person is referred to as an ISC by the direct seller.

“Input tax credit” (ITC) means a credit registrants may claim to recover the GST/HST they have to pay on their business purchases.

“Non-approved distributor” means a distributor that has not been granted approval to use the ACM pursuant to a joint application with the direct seller.

“Personal property” means property that is not real property.

“Purchaser” means an individual, business or organization that purchases a direct seller’s exclusive product and does not intend to resell it.

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

“Sales aids” means property that is a customized business form or a sample, demonstration kit, promotional or instructional item, catalogue, or other personal property that a direct seller or an ISC acquires, manufactures or produces for sale to assist in the promotion, sale or distribution of the direct seller’s exclusive products. A sales aid also includes the service of shipping or handling, or processing an order for other sales aids or exclusive products. However, it does not include an exclusive product or property that an ISC purchases for use as capital property. For more information, refer to GST/HST Info Sheet GI-023, *Direct Seller’s Sales Aids*.

“Suggested retail price” of a product means the lowest price before tax published by a direct seller for sale to purchasers. It is usually the price set out in a direct seller’s catalogue of products, including any amount set out for shipping and handling.

“Taxable” means subject to the 5% GST or to the HST rate in effect in a participating province (i.e. 12%, 13% or 15%).

“Zero-rated” means subject to GST/HST at 0%.

What is the ACM?

In this part of the info sheet, “ISC” includes a non-approved distributor.

The ACM is a method that simplifies the operation of the GST/HST for direct sellers, distributors and ISCs.

When an approval to use the ACM has been granted to a direct seller, the approved direct seller ignores the sale of its exclusive products to ISCs for GST/HST purposes. The approved direct seller charges and accounts for the GST/HST on the suggested retail price of the exclusive product as if the approved direct seller, and not the ISC, had made the subsequent sale to the other ISC of the approved direct seller or to the purchaser.

A direct seller may also jointly apply with one or more of its distributors to have the ACM rules apply at the distributor’s level. When an approval to use the ACM is granted to a distributor, the approved distributor ignores the sale of the exclusive products to ISCs for GST/HST purposes. The approved distributor charges and accounts for the GST/HST on the suggested retail price of the exclusive product as if the approved distributor, and not the ISC, had made the subsequent sale to the other ISC of the approved direct seller or to the purchaser.

As a result, whether the GST/HST is charged and accounted for at the approved direct seller’s or the approved distributor’s level, ISCs do not have to register and, whether registered or not, do not account for the GST/HST on their sales of exclusive products to other ISCs of the approved direct seller or to purchasers.

However, before they can use the ACM, the direct seller must apply to the Canada Revenue Agency (CRA) either:

- alone, when the direct seller wants the ACM to apply only at the direct seller’s level, or

- jointly with one or more of its distributors, when the direct seller wants the ACM to apply at both the direct seller's level and the distributor's level

and in either case, must have received approval from the CRA to use the method.

### Application and joint application for approval to use the ACM

The application or joint application for approval to use the ACM must be sent to the Assistant Director of Audit of the direct seller's tax services office. No special form has to be completed, but the application must contain the information set out in Appendix A, *Application by a Direct Seller to Use the Alternate Collection Method (ACM)* or in Appendix B, *Joint Application by a Direct Seller and a Distributor to Use the Alternate Collection Method (ACM)*.

Appendix A is an example of an application acceptable to the CRA that could be used when a direct seller applies to use the ACM. Appendix B is an example of a joint application acceptable to the CRA that could be used when a direct seller and its distributors jointly apply for the distributors to use the ACM.

Direct sellers and distributors must be registrants in order to apply for approval to use the ACM.

A list of the CRA's tax services offices may be found on the CRA's Web site at [www.cra-arc.gc.ca/tso](http://www.cra-arc.gc.ca/tso).

### *Notification of approval to use the ACM*

The CRA will notify the direct seller and/or the distributor, in writing, of the approval or refusal to use the ACM.

If the approval is granted, the direct seller is expected to notify its current and future ISCs that it has been approved by the CRA to use the ACM.

### *Approval required when purchasing a direct seller's business*

When an approved direct seller sells its business or part of its business, the approval to use the ACM does not necessarily pass to the new owner. This would be the case where, for example, a direct seller sells its assets, as opposed to its shares, to a new owner. If the new owner wants to use the ACM,

it should contact the CRA to determine if it has to apply for approval.

### Accounting for the GST/HST – approved direct sellers

In this part of the info sheet, "ISC" includes a non-approved distributor.

#### *Sales of exclusive products to ISCs*

When an approval to use the ACM is granted to a direct seller, the approved direct seller charges the ISC the GST/HST on the suggested retail price of the exclusive product sold to the ISC, even if the approved direct seller charges a lower price to the ISC. The approved direct seller includes the amount of tax in its net tax calculation by including the amount on line 103 of its GST/HST return for the reporting period that includes the earlier of the day the amount payable by the ISC becomes due or is paid.

The following examples use taxable exclusive products to explain this rule. See the information under the heading "Zero-rated sales of exclusive products" for information on how the ACM applies to those sales.

#### **Example 1**

An approved direct seller in Ontario sells candles to an ISC for \$20. The suggested retail price of the candles is \$25. Although the ISC pays \$20 for the candles, the direct seller charges the HST on the suggested retail price of \$25. The direct seller's invoice to the ISC shows the following:

Candles	\$20.00
HST (\$25 × 13%)	<u>3.25</u>
Amount payable by the ISC	\$23.25

The direct seller includes \$3.25 on line 103 of its GST/HST return for the reporting period that includes the earlier of the day the \$20 payable by the ISC becomes due or is paid.

#### **Example 2**

An approved direct seller in Alberta sells cookware to a non-approved distributor for \$80. The suggested retail price of the cookware is \$100. Although the non-approved distributor pays \$80 for the cookware, the direct seller charges the GST on the suggested retail price of \$100. The direct seller's invoice to the distributor shows the following:

Cookware	\$80
GST (\$100 × 5%)	<u>5</u>
Amount payable by the non-approved distributor	\$85

The direct seller includes \$5 on line 103 of its GST/HST return for the reporting period that includes the earlier of the day the \$80 payable by the non-approved distributor becomes due or is paid.

*Sales of exclusive products to approved distributors*

When an approval to use the ACM is granted to a distributor, the approved direct seller charges the approved distributor the GST/HST on the actual price of the exclusive product sold to the approved distributor. The approved direct seller includes this amount of tax in its net tax calculation by including the amount on line 103 of its GST/HST return for the reporting period that includes the earlier of the day the amount payable by the approved distributor becomes due or is paid.

Accounting for the GST/HST – approved distributors

In this part of the info sheet, "ISC" includes a non-approved distributor.

*Sales of exclusive products to ISCs*

When an approval to use the ACM is granted to a distributor, the approved distributor charges the ISC the GST/HST on the suggested retail price of the product sold to the ISC, even if the approved distributor charges a lower price to the ISC. The approved distributor includes the amount of tax in its net tax calculation by including the amount on line 103 of its GST/HST return for the reporting period that includes the earlier of the day the amount payable by the ISC becomes due or is paid.

As a registrant, the approved distributor may claim ITCs to recover the GST/HST paid on its business purchases, including the tax paid on the purchase of the exclusive product from the approved direct seller. However, a registrant distributor may be restricted from claiming ITCs on certain business expenses. See the information under the heading "Other rules" for more information on ITC restrictions.

**Example 3**

An approved direct seller in Nova Scotia sells an outfit to an approved distributor for \$40 who, in turn, sells the outfit to an ISC for \$50. The suggested retail price of the outfit is \$60.

The direct seller charges and accounts for the HST on the actual price charged to the approved distributor. The direct seller's invoice to the approved distributor shows the following:

Outfit	\$40
HST (\$40 × 15%)	<u>6</u>
Amount payable by the approved distributor	\$46

The direct seller includes \$6 on line 103 of its GST/HST return for the reporting period that includes the earlier of the day the \$40 payable by the approved distributor becomes due or is paid.

When the approved distributor sells the outfit to the ISC, the approved distributor charges the HST on the suggested retail price of \$60, although the ISC pays \$50 for the outfit. The approved distributor's invoice to the ISC shows the following:

Outfit	\$50
HST (\$60 × 15%)	<u>9</u>
Amount payable by the ISC	\$59

The approved distributor includes \$9 on line 103 of its GST/HST return for the reporting period that includes the earlier of the day the \$50 payable by the ISC becomes due or is paid, and claims an ITC of \$6 on line 106 to recover the tax paid on the purchase of the outfit from the direct seller.

*Sales of exclusive products to other approved distributors*

When an approval to use the ACM is granted to a distributor, and the approved distributor sells exclusive products to another approved distributor of the direct seller, the approved distributor charges and accounts for the tax on the actual price of the exclusive product sold to the other approved distributor. The approved distributor includes this amount of tax in its net tax calculation by including the amount on line 103 of its GST/HST return for the reporting period that includes the earlier of the day the amount payable by the other approved distributor becomes due or is paid.

Zero-rated sales of exclusive products

GST/HST does not apply to zero-rated exclusive products, such as basic groceries. Therefore, approved direct sellers and approved distributors do not pay the GST/HST when they purchase these products and do not charge the GST/HST when they sell them to ISCs.

For information on zero-rated sales, refer to Chapter 4, *Zero-Rated Supplies*, of the GST/HST Memoranda Series.

#### Example 4

An approved direct seller in New Brunswick sells spices to an ISC for \$15. The suggested retail price is \$20. Because spices are zero-rated, the direct seller does not pay the HST when purchasing the spices and does not charge the HST when selling them to the ISC.

#### Taxable sales of exclusive products when the purchaser is not required to pay tax

In this part of the info sheet, "ISC" includes a non-approved distributor.

Sometimes, an approved direct seller or an approved distributor, as the case may be, sells a taxable exclusive product to an ISC, but the subsequent sale by the ISC to the purchaser is not subject to tax or is zero-rated. Also, there are situations where the purchaser does not have to pay tax because of legislation, such as an Indian purchasing an exclusive product on a reserve in a situation where the Indian does not have to pay tax.

Even if, at the time the taxable exclusive product is sold to the ISC, the approved direct seller or the approved distributor, as the case may be, knows that the purchaser is not required to pay tax on the subsequent sale made by the ISC, the approved direct seller or the approved distributor is required to account for the GST/HST on the suggested retail price of the exclusive product on line 103 of its GST/HST return.

The approved direct seller or the approved distributor, as the case may be, may recover the tax it accounts for by claiming a deduction on line 107 of its GST/HST return. See the information under the heading "ISC selling a taxable product to a purchaser who does not have to pay tax" for information on the deduction.

#### Sales aids

In this part of the info sheet, "ISC" includes a distributor.

When an approval to use the ACM is granted to a direct seller, GST/HST does not apply when the approved direct seller sells a sales aid to an ISC. The same rule applies when an ISC sells a sales aid to another ISC of the approved direct seller.

However, GST/HST applies when the approved direct seller or a registrant ISC sells a sales aid to any other person. For more information on sales aids, refer to GST/HST Info Sheet GI-023, *Direct Seller's Sales Aids*.

#### Example 5

An approved direct seller in Prince Edward Island sells cosmetics. To assist in the promotion and sale of the cosmetics, the direct seller sells a demonstration kit containing samples and disposable applicators to an ISC.

The demonstration kit is a sales aid because it is for sale to assist in the promotion and the sale of the exclusive products. Consequently, the direct seller does not charge the ISC the GST on the sale of the demonstration kit.

#### Bonus payments

In this part of the info sheet, "ISC" includes a distributor.

A bonus payment is any amount which is paid to an ISC because of the volume of purchases or sales of exclusive products or sales aids. It could be an amount of money, goods or services.

When an approval to use the ACM is granted to a direct seller, GST/HST does not apply when the approved direct seller makes a bonus payment to an ISC. The same rule applies when an ISC makes a bonus payment to another ISC of the approved direct seller.

However, if the amount is paid on any other basis, the payment is not a bonus payment and the supply for which the amount is paid may be subject to tax.

#### Example 6

An approved direct seller gives a bonus payment of \$100 to its ISCs who reach a certain amount of monthly sales of exclusive products. The bonus payment is not subject to tax.

#### Example 7

An approved direct seller gives a bonus payment of \$200 to an ISC based on the volume of sale of exclusive products made by other ISCs who are sponsored into the direct seller's compensation plan. The bonus payment is not subject to tax.

#### Host gifts

The rules in this part of the info sheet apply when an ISC provides a host gift to a host. When an approved direct seller provides a host gift directly to a host, the regular GST/HST rules apply.

A host gift is property given to a person for the service of hosting an occasion organized for the promotion or sale of exclusive products to purchasers. Usually, the host gift is an exclusive product or a credit to be used against the purchase of an exclusive product (i.e., a host credit). It may also be an item that is not an exclusive product.

*Host receives an exclusive product or a credit from an ISC to be used towards the purchase of an exclusive product*

When an approval to use the ACM is effect, and an approved direct seller or an approved distributor, as the case may be, supplies an exclusive product to an ISC who, in turn, gives the product to a host as a host gift, the approved direct seller or the approved distributor charges the ISC the GST/HST on the suggested retail price of the product and accounts for that tax on line 103 of its GST/HST return, even if the product is supplied to the ISC at no cost. Afterwards, the approved direct seller or the approved distributor, as the case may be, may choose to pay or credit an amount to the ISC in respect of the supply and deduct an equal amount from its net tax.

For more information on the deduction an approved direct seller or an approved distributor, as the case may be, may claim when an ISC gives a host an exclusive product with a suggested retail price that is equal to or less than the host credit, see the information under the heading “ISC giving away an exclusive product or keeping an exclusive product for its own personal use.”

For more information on the deduction an approved direct seller or an approved distributor, as the case may be, may claim when an ISC gives a host an exclusive product with a suggested retail price that is more than the host credit, see the information under the heading “ISC selling an exclusive product for less than the suggested retail price, but more than a nominal price.”

For information on how the GST/HST applies when an ISC gives a host an exclusive product with a suggested retail price that is more than the host credit, refer to GST/HST Info Sheet GI-126, *Direct Selling Industry – The Alternate Collection Method for Independent Sales Contractors*.

*Host receives an item from an ISC (other than an exclusive product)*

When an approval to use the ACM is in effect, and an approved direct seller supplies an item (other than an exclusive product) to an ISC who, in turn, gives the item to a host as a host gift, the item supplied to the ISC is considered a sales aid.

Consequently, GST/HST does not apply when the approved direct seller supplies the item to the ISC. The same rule applies when an ISC (e.g., a distributor) supplies an item (other than an exclusive product) to an ISC who, in turn, gives the item to a host as a host gift.

GST/HST does not apply when the ISC gives the item to the host as a host gift.

### Adjustments to net tax

In this part of the info sheet, “ISC” includes a non-approved distributor.

In some situations, an approved direct seller or an approved distributor, as the case may be, may, in determining its net tax, deduct an amount to recover all or part of the GST/HST it is required to account for on sales of exclusive products. This could happen when an ISC:

- sells an exclusive product back to an approved direct seller or a approved distributor, as the case may be;
- sells an exclusive product for less than its suggested retail price, but more than a nominal price;
- gives away an exclusive product to a purchaser or keeps an exclusive product for its own personal use;
- sells a taxable exclusive product to a purchaser who does not have to pay tax; or
- gives to a host a host gift that is an exclusive product.

*ISC selling an exclusive product back to an approved direct seller or approved distributor*

An ISC may sell an exclusive product back to an approved direct seller or an approved distributor, as the case may be, when, for example, the ISC goes out of business and sells back inventory. The sale of

an exclusive product from an ISC to an approved direct seller or an approved distributor is not a supply under the ACM. Consequently, GST/HST does not apply when an ISC sells an exclusive product to an approved direct seller or an approved distributor even if the ISC is a registrant.

In its net tax calculation, the approved direct seller or the approved distributor, as the case may be, may deduct an amount equal to the amount of GST/HST it accounted for on the initial sale of the exclusive product to the ISC. The approved direct seller or approved distributor claims the deduction on line 107 of a GST/HST return filed within four years after the due date of the return for the reporting period in which the ISC sold the product.

The approved direct seller or approved distributor has to keep documentary evidence to support the deduction of the amount from its net tax.

#### Example 8

An approved direct seller in Ontario sells detergent to an ISC for \$35. The suggested retail price is \$40. The direct seller's invoice to the ISC shows the following:

Detergent	\$35.00
HST (\$40 × 13%)	<u>5.20</u>
Amount payable by the ISC	\$40.20

The direct seller includes \$5.20 on line 103 of its GST/HST return for the reporting period that includes the earlier of the day the \$35 payable by the ISC becomes due or is paid.

Later, the ISC goes out of business and returns the detergent to the direct seller. To recover the tax it had accounted for on the initial sale, the direct seller claims a deduction for the amount of \$5.20 on line 107 of a GST/HST return filed within four years after the due date of the return for the reporting period in which the ISC returned the detergent to the direct seller.

*ISC selling an exclusive product for less than the suggested retail price, but more than a nominal price*

When an ISC sells an exclusive product to a purchaser for less than its suggested retail price, but more than a nominal price, the approved direct seller or approved distributor, as the case may be, may, in determining its net tax, deduct an amount equal to the difference between:

- the GST/HST calculated on the suggested retail price of the exclusive product when the ISC purchased the exclusive product; and

- the GST/HST calculated on the actual price charged to the purchaser.

The approved direct seller or approved distributor, as the case may be, can claim the deduction only if it pays or credits the same amount to the ISC. The approved direct seller or approved distributor claims the deduction on line 107 of a GST/HST return filed within four years after the due date of the return for the reporting period in which the approved direct seller or approved distributor pays or credits the amount to the ISC.

The approved direct seller or approved distributor has to keep documentary evidence that it paid or credited the amount to the ISC.

#### Example 9

An approved direct seller in Saskatchewan sells a bottle of perfume to an ISC for \$30. The suggested retail price of the perfume is \$40. The direct seller's invoice to the ISC shows the following:

Bottle of perfume	\$30
GST (\$40 × 5%)	<u>2</u>
Amount payable by the ISC	\$32

The direct seller includes \$2 on line 103 of its GST/HST return for the reporting period that includes the earlier of the day the \$30 payable by the ISC becomes due or is paid.

The ISC sells the bottle to a purchaser for \$35 plus \$1.75 GST (\$35 × 5%). The direct seller pays \$0.25 to the ISC which is the difference between:

- the \$2.00 GST calculated on the suggested retail price; and
- the \$1.75 GST calculated on the actual price charged to the purchaser.

The direct seller claims a deduction for the same amount (\$0.25) on line 107 of a GST/HST return filed within four years after the due date of the return for the reporting period in which it pays the amount to the ISC.

The above rules also apply when an ISC gives an exclusive product to a host as a host gift and the suggested retail price of the product is more than the host credit.

Specifically, the approved direct seller or approved distributor, as the case may be, may, in determining its net tax, deduct an amount equal to the difference between:

- the GST/HST calculated on the suggested retail price of the exclusive product when the ISC

purchased the exclusive product to be given to the host as a host gift; and

- the GST/HST calculated on the actual price charged to the host.

*ISC giving away an exclusive product or keeping an exclusive product for its own personal use*

When an ISC gives an exclusive product to a purchaser or keeps an exclusive product for its own personal use, the approved direct seller or the approved distributor, as the case may be, may, in determining its net tax, deduct an amount equal to the difference between:

- the GST/HST calculated on the suggested retail price of the exclusive product when the ISC purchased the exclusive product; and
- the GST/HST calculated on the actual price charged to the ISC.

The approved direct seller or the approved distributor can claim the deduction only if it pays or credits the same amount to the ISC. The approved direct seller or the approved distributor claims the deduction on line 107 of a GST/HST return filed within four years after the due date of the return for the reporting period in which the approved direct seller or the approved distributor pays or credits the amount to the ISC.

The approved direct seller or the approved distributor has to keep documentary evidence that it paid or credited the amount to the ISC.

**Example 10**

An approved direct seller in Manitoba sells cosmetics to an ISC for \$100. The suggested retail price of the cosmetics is \$120. The direct seller's invoice to the ISC shows the following:

Cosmetics	\$100
GST (\$120 × 5%)	<u>6</u>
Amount payable by the ISC	\$106

The direct seller includes \$6 on line 103 of its GST/HST return for the reporting period that includes the earlier of the day the \$100 payable by the ISC becomes due or is paid.

The ISC keeps the cosmetics for herself. The direct seller credits her with \$1 which is the difference between:

- the \$6 GST calculated on the suggested retail price; and
- the \$5 GST calculated on the actual price charged to the ISC.

The direct seller claims a deduction for the same amount (\$1) on line 107 of a GST/HST return filed within four years after the due date of the return for the reporting period in which it credits the amount to the ISC.

The above rules also apply when an ISC gives an exclusive product to a host as a host gift and the suggested retail price of the product is equal to or less than the host credit.

Specifically, the approved direct seller or approved distributor, as the case may be, may, in determining its net tax, deduct an amount equal to the difference between:

- the GST/HST calculated on the suggested retail price of the exclusive product when the ISC purchased the exclusive product to be given to the host as a host gift; and
- the GST/HST calculated on the actual price, if any, charged to the host.

*ISC selling a taxable product to a purchaser who does not have to pay tax*

There are situations where an ISC sells an exclusive product, but the purchaser does not have to pay tax. This could happen when an ISC:

- sells an exclusive product outside Canada;
- exports an exclusive product in a situation where the sale to the purchaser is zero-rated (for example, when an ISC sends the product by courier to an address outside Canada); or
- sells an exclusive product to a person who does not have to pay tax because of legislation, such as an Indian purchasing an exclusive product on a reserve in a situation where the Indian does not have to pay tax.

When an ISC sells an exclusive product in one of the situations described above, the approved direct seller or the approved distributor, as the case may be, is required to account for the GST/HST on the suggested retail price of the product on line 103 of its GST/HST return and may, in determining its net tax, deduct that same amount of tax.

The approved direct seller or the approved distributor, as the case may be, can claim the deduction only if it pays or credits the same amount



to the ISC. The approved direct seller or the approved distributor claims the deduction on line 107 of a GST/HST return filed within four years after the due date of the return for the reporting period in which the approved direct seller or the approved distributor pays or credits the amount to the ISC.

The approved direct seller or the approved distributor has to keep documentary evidence that it paid or credited the amount to the ISC.

#### Example 11

An approved direct seller in Newfoundland and Labrador sells a necklace to an ISC for \$75. The suggested retail price of the necklace is \$100. The direct seller's invoice to the ISC shows the following:

Necklace	\$75
HST (\$100 × 13%)	<u>13</u>
Amount payable by the ISC	\$88

The direct seller includes \$13 on line 103 of its GST/HST return for the reporting period that includes the earlier of the day the \$75 payable by the ISC becomes due or is paid.

The ISC sells the necklace to an Indian on a reserve in a situation where the Indian is not required to pay tax. The ISC gives the direct seller documentary evidence that the sale was made to an Indian who did not have to pay the tax. The direct seller credits the ISC with \$13 which is the HST calculated on the suggested retail price. The direct seller deducts that same amount on line 107 of a GST/HST return filed within four years after the due date of the return for the reporting period in which it credits the amount of tax to the ISC.

#### *Other adjustments to net tax*

An approved direct seller or an approved distributor, as the case may be, may have to make an adjustment to its net tax in other situations.

Call a GST/HST Rulings Centre at 1-800-959-8287 for more information if:

- an approved distributor stops using the ACM and, at that time, it holds exclusive products in inventory;
- an approved direct seller or an approved distributor sells an exclusive product to an ISC in a participating province, but the ISC sells the exclusive product in another participating province;
- an ISC sells an exclusive product, but the amount payable for the product and the GST/HST become in whole or in part a bad debt that is written off in the ISC's books of account; or
- an ISC recovers some or all of a bad debt.

#### Other rules

Other ACM rules affect approved direct sellers and approved distributors. Call a GST/HST Rulings Centre at 1-800-959-8287 for more information on:

- any entitlement to claim ITCs when an approved direct seller or a distributor provides property (other than an exclusive product) or a service to an ISC or an ISC's relative; and
- appropriation of property (other than an exclusive product) or service by an approved direct seller or a distributor for the benefit of an ISC or an ISC's relative.

#### Revocation of approval

The CRA can revoke an approval to use the ACM if an approved direct seller or an approved distributor fails to comply with any GST/HST provisions. The CRA can also revoke an approval to use the ACM at the direct seller's written request.

Call us for more information on how to revoke an approval to use the ACM and to get information on the effect of the revocation for direct sellers and distributors.

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.

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*.

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.

All technical publications related to GST/HST are available on the CRA Web site at [www.cra.gc.ca/gsthstech](http://www.cra.gc.ca/gsthstech).

## Appendix A

The following is the information that direct sellers must provide when applying for approval to use the ACM.

### Application by a Direct Seller to Use the Alternate Collection Method (ACM)

#### Information on direct seller

Business Number \_\_\_\_\_ RT \_\_\_\_\_  
Legal name \_\_\_\_\_  
Trading name (if different) \_\_\_\_\_  
Address \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Telephone number \_\_\_\_\_  
Contact person \_\_\_\_\_  
Title \_\_\_\_\_

We would like this approval to be effective on \_\_\_\_\_  
(YYYY-MM-DD)

#### Eligibility requirements (check the box if the condition has been met)

On behalf of the direct seller, we certify that

- we are a registrant for GST/HST purposes;
- we sell our exclusive products to independent sales contractors (ISCs) who, in turn, sell the products to purchasers (i.e., an individual, business or organization that purchases an exclusive product for its own use and does not intend to resell it);
- the ISCs are not our agents or our employees, or agents or employees of any of our distributors;
- the ISCs have a contractual right to purchase exclusive products for sale to other ISCs or to purchasers;
- the ISCs do not solicit, negotiate or enter into contracts for the sale of exclusive products to purchasers primarily at a fixed place of business (other than their private residence).

We understand that the approval to use the ACM may be revoked if the direct seller fails to comply with any GST/HST provision.

If approved to use the ACM, we understand that the ACM may not apply to some transactions between our ISCs (including distributors) and us.

The direct seller is expected to notify its current and future ISCs that it has been approved by the Canada Revenue Agency to use the ACM.

#### Certification

I hereby certify that the information given on this application, and any document attached, is true, correct and complete to the best of my knowledge and that I am authorized to sign on behalf of the direct seller.

\_\_\_\_\_  
Signature of authorized representative  
of direct seller

\_\_\_\_\_  
Printed name

\_\_\_\_\_  
Title

\_\_\_\_\_  
(YYYY-MM-DD)

## Appendix B

The following is the information that direct sellers and their distributors must provide when jointly applying for approval to use the ACM.

### Joint application by a Direct Seller and a Distributor to Use the Alternate Collection Method (ACM)

#### Information on direct seller

Business Number \_\_\_\_\_ RT \_\_\_\_\_  
Legal name \_\_\_\_\_  
Trading name (if different) \_\_\_\_\_  
Address \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Telephone number \_\_\_\_\_  
Contact person \_\_\_\_\_  
Title \_\_\_\_\_

#### Information on distributor

Business Number \_\_\_\_\_ RT \_\_\_\_\_  
Legal name \_\_\_\_\_  
Trading name (if different) \_\_\_\_\_  
Address \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Telephone number \_\_\_\_\_  
Contact person \_\_\_\_\_  
Title \_\_\_\_\_

We would like the approval to be effective on \_\_\_\_\_  
(YYYY-MM-DD)

(continued on next page)

**Eligibility requirements** (check the box if the condition has been met)

On behalf of the direct seller and the distributor, we certify that

- we are registrants for GST/HST purposes;
- the distributor sells exclusive products to independent sales contractors (ISCs) who, in turn, sell the products to purchasers (i.e., an individual, business or organization that purchases an exclusive product for its own use and does not intend to resell it);
- the ISCs are not our agents or our employees;
- the ISCs have a contractual right to purchase exclusive products from the distributor for sale to ISCs or to purchasers;
- the ISCs do not solicit, negotiate or enter into contracts for the sale of exclusive products to purchasers primarily at a fixed place of business (other than their private residence).

We understand that the approval to use the ACM may be revoked if the distributor fails to comply with any GST/HST provision.

If we are approved to use the ACM, we understand that the ACM may not apply to some transactions between our ISCs and us.

The distributor is expected to notify its current and future ISCs that it has been approved by the Canada Revenue Agency to use the ACM.

**Certification – Direct seller**

I hereby certify that the information given on this application, and any document attached, is true, correct and complete to the best of my knowledge and that I am authorized to sign on behalf of the direct seller.

_____	_____	_____	_____
Signature of authorized representative of direct seller	Printed name	Title	(YYYY-MM-DD)

**Certification – Distributor**

I hereby certify that the information given on this application, and any document attached, is true, correct and complete to the best of my knowledge and that I am authorized to sign on behalf of the distributor.

_____	_____	_____	_____
Signature of authorized representative of distributor	Printed name	Title	(YYYY-MM-DD)