The QST and the GST/HST

How They Apply to Charities

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Revenu Québec

Ensuring the funding of public services

Providing for the future of our society

Canada

Québec

Foreword

This brochure, which is intended for charities and Canadian amateur athletic associations that are registered within the meaning of the *Income Tax Act* and the *Taxation Act*, complements the publication *General Information Concerning the QST and the GST/HST* (IN-203-V). The information it contains does not, however, apply to charities that are also public institutions (a school authority, public college, university, hospital authority, or local authority determined to be a municipality). Public institutions are not considered charities for the purposes of the GST and the QST.

This brochure provides information on various subjects, including taxable and exempt sales, tax rebates, the simplified net tax calculation method, registration for the GST and the QST, and input tax credits (ITCs) and input tax refunds (ITRs).

For further information, please contact the office of Revenu Québec in your area. The addresses and telephone numbers of the offices are listed on the last page.

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Contents

General information on the GST and the QST

Most property and services are subject to GST and QST. The majority of transactions conducted in Canada are GST-taxable at the rate of 5%.[1] Transactions conducted in Québec are subject not only to the GST, but also to the QST at the rate of 7.5%.

Moreover, the harmonized sales tax (HST) applies in the participating provinces: New Brunswick, Nova Scotia, Newfoundland and Labrador, Ontario and British Columbia. Persons registered for the GST are automatically registered for the HST; they must collect HST on the taxable (other than zero-rated) sales they make in the participating provinces. To find out what the applicable HST rate is in each of these provinces, refer to the Revenu Québec website at **www.revenu.gouv.qc.ca**.

Québec businesses that are registered for the GST/HST must collect HST on the sales they make in the participating provinces. However, the term "HST" is not systematically used throughout this brochure. The term "GST" is used to mean "GST/HST," unless otherwise specified.

1. This rate was 6% from July 1, 2006, to December 31, 2007. It was previously 7%.

Definitions

Charity

Any charity or Canadian amateur athletic association that is registered within the meaning of the *Income Tax Act* and the *Taxation Act*. If the organization **is also** a school authority, public college, university, hospital authority, or local authority determined to be a municipality, it is not considered a charity for the purposes of the GST and the QST; it is considered a public institution.

Commercial activity

Any business (such as a profit-making or non-profit business or industry), adventure or concern in the nature of trade. Commercial activities also include the sale and rental by a person of immovables (called "real property" for GST purposes) belonging to the person, but do not include exempt sales and rentals.

Exempt sales

The sale of property or a service that is not subject to GST or QST. A person that sells exempt property or services is not required to charge the taxes. Accordingly, the person may not claim ITCs or ITRs for expenses related to such sales. However, charities may generally claim rebates of 50% of the GST and QST they pay on expenses that do not give entitlement to ITCs or ITRs.

Property

Property includes movable property ("personal property" for GST purposes), immovables ("real property" for GST purposes), corporeal movable property ("tangible personal property" for GST purposes) and incorporeal movable property ("intangible personal property" for GST purposes). Land, buildings, offices, computers, cash registers, spare parts, cleaning products and pencils are examples of **corporeal property**. Licences, patents, cutting rights, shares and copyrights are examples of **incorporeal property**. "Property" does not include money.

Registrant

A person that is registered or that is required to be registered for the GST and the QST.

Service

All supplies other than supplies of property or money, and other than services rendered to an employer by an employee as part of his or her office or employment.

Small supplier

Charities whose total worldwide taxable sales (excluding sales of capital property but including sales made by associates) is $50,000 or less in the current calendar quarter and over the preceding four consecutive calendar quarters. A charity whose gross revenue did not exceed $250,000 may also, under certain conditions, be considered a small supplier. Consult the section "Small suppliers," on page 9.

Supply

The provision of property or a service in any manner whatsoever, including by way of sale, transfer, barter, exchange, lease or gift.

> In this guide, we normally use the term "sale" instead of "supply" because sales account for most supplies.

Taxable sales

The sale of property or a service made by a person in the course of the person's commercial activities. Such sales are subject to 5%[1] GST and 7.5% QST. A zero-rated sale is also considered a taxable sale, since it is taxable at the rate of 0%. GST and QST registrants that sell taxable property or services (other than zero-rated property or services) are required to charge the taxes. However, they may claim a refund of the taxes they pay on expenses related to such sales. The refund takes the form of an ITC for GST purposes and an ITR for QST purposes.

Zero-rated sales

The sale of property or a service that is taxable at the rate of 0%. A person that sells zero-rated property or services is not required to charge GST or QST. However, since such sales are taxable, registrants may claim a refund of the taxes they pay on expenses related to such sales. The refund takes the form of an ITC for GST purposes and an ITR for QST purposes.

1. This rate was 6% from July 1, 2006, to December 31, 2007. It was previously 7%.

General rules for charities

While most sales of property and services made by businesses are taxable, sales made by charities are usually exempt.

If all of your sales are exempt

- you cannot register for the GST and QST;
- you do not charge tax on sales other than taxable sales of immovables;
- you cannot claim ITCs to recover the GST or ITRs to recover the QST you paid on your purchases;
- you may claim a 50% rebate of the taxes you paid on eligible purchases and expenses.

If some of your sales are taxable, you are generally considered a small supplier. You do not have to register for the GST and the QST. However, you may register if you wish.

If some of your sales are taxable and you choose not to register

- you do not charge tax on sales other than taxable sales of immovables;
- you cannot claim ITCs or ITRs to recover the GST and QST you paid or owe on your purchases;
- you are eligible to claim a rebate of 50% of the taxes you paid on your eligible purchases and expenses;
- you do not have to register for the GST or QST as long as you are considered a small supplier.

If some of your sales are taxable and you choose to register

- you must collect and remit GST and QST on your taxable sales;
- you must use the simplified net tax calculation method for charities;
- you may claim ITCs and ITRs only with respect to taxes paid to acquire or to make improvements to capital property and immovables;
- you may claim a rebate of 50% of the taxes you paid on your eligible purchases and expenses for which you cannot claim ITCs or ITRs.

Registration

Should I register?

If you make sales in the course of your commercial activities, you are generally required to register for the GST and the QST and collect the taxes when you make taxable (other than zero-rated) sales. However, if you are considered a small supplier, you are usually not required to register even if you make taxable sales. If you are not a GST and QST registrant, you do not have to collect the taxes, unless you make certain taxable sales of immovables. To find out if you are a small supplier, consult the section "Small suppliers" below.

As a rule, persons that are registered for the GST and the QST may claim a refund of the taxes they pay on property and services acquired for their commercial activities. The refund takes the form of an ITC under the GST system and an ITR under the QST system. However, as most charities use the simplified net tax calculation method, they may claim ITCs and ITRs only with respect to taxes paid to acquire, or to make improvements to, capital property and immovables.

Similarly, charities may not claim ITCs or ITRs for property and services acquired for exempt activities, which account for most of their sales. Nevertheless, charities, regardless of whether they are registered, may obtain a rebate of 50% of the GST and QST they pay in respect of property and services acquired for the purpose of making exempt sales. Consult the section "Tax rebates" on page 19.

You cannot register if all your sales are exempt. Consult the section "Exempt sales" on page 12.

For further information, refer to the brochure *Should I Register with Revenu Québec?* (IN-202-V).

Small suppliers

You are not required to register for the GST and the QST if you are considered a small supplier, that is, if

- you are in your first year of existence;
- you are in your second year of existence and your gross revenue did not exceed $250,000 during your first fiscal year;
- you have been in existence for more than two years and your gross revenue did not exceed $250,000 in either of the previous two fiscal years;
- the total taxable sales you made in the last four calendar quarters amounted to $50,000 or less; or
- your total taxable sales do not exceed $50,000 in the current calendar quarter.

To determine your gross revenue, you must take into account your income from all sources, such as gifts, grants, property income, investment income and business income. You must also take into account any amount considered to be a capital gain or loss for the purposes of calculating income tax.

Your total taxable sales include your worldwide sales subject to 5%[1] GST and 7.5% QST, as well as your zero-rated sales (0%). It does not include sales of capital property such as a building or a computer.

Voluntary registration

Even if you are considered a small supplier, you may decide to register for the GST and the QST if you sell taxable property or services. However, you must then collect the taxes on your taxable (other than zero-rated) sales.

Once you are registered, you must use the simplified net tax calculation method to calculate the taxes to be remitted. Consult the section “Simplified net tax calculation method” on page 27. You cannot claim ITCs or ITRs for the expenses you incurred in order to make taxable sales, other than those related to the acquisition of capital property and immovables; the simplified method takes these into account. You simply remit 60% of the taxes collected. You may, however, as a charity, obtain a rebate of 50% of the taxes paid.

Reporting periods

You may choose the frequency for filing your GST and QST returns, and can elect to file monthly, quarterly or annually.

If you do not make an election, Revenu Québec will assign you an annual reporting period and you may have to make instalment payments.

1. This rate was 6% from July 1, 2006, to December 31, 2007. It was previously 7%.

Branches or divisions

If you have branches or divisions, you may apply to have each one designated as a small-supplier division for the purposes of the rule pertaining to small suppliers. If the application is approved, the branch or division will not be required to collect GST and QST when it makes taxable sales. A branch or division may qualify as a small-supplier division if it meets the following conditions:

- Its taxable sales worldwide did not exceed $50,000 in the previous four consecutive calendar quarters or in any particular calendar quarter.
- It is distinguishable from other branches or divisions by its location or the nature of its activities.
- It keeps separate records, books of account and accounting systems.
- An earlier designation, if applicable, was not revoked at its request in the previous 365-day period.

To apply for designation as a small-supplier division, you must complete form FP-631-V, *Application by a Public Service Body to Have Branches or Divisions Designated as Small-Supplier Divisions*.

An unincorporated organization, which is not considered a legal person, may elect to be considered a branch or division of another unincorporated organization of which it is a member, rather than a separate person. In that case, the GST and QST do not apply to supplies of property or services between the two organizations. To make such an election, the organizations must jointly complete form FP-632-V, *Application by an Unincorporated Organization to Be Considered a Branch of Another Unincorporated Organization*.

Cancellation of registration

You may request that your registration for the GST and the QST be cancelled if you determine that you are not required to register. However, you must have been registered for at least one year before you may cancel your registration. The cancellation may take effect at any time during your fiscal year. To request the cancellation of your registration, you must complete form FP-611-V, *Request for Cancellation or Variation of Registration*.

Exempt sales

Most sales of property and services provided by charities are tax-exempt. This means that you do not charge GST and QST on these sales. You cannot claim ITCs or ITRs but you are entitled to a rebate of 50% for the GST and QST you paid on related purchases.

Some supplies of property and services are exempt regardless of who provides them. Such supplies include

- child-care services provided usually for less than 24 hours per day for children 14 years of age or younger;
- long-term residential accommodation (at least one month of occupancy);
- care and supervision services for children, underprivileged individuals, or individuals with disabilities, when provided by a person operating an establishment for these individuals.

However, other property or services are exempt when supplied by a charity. Such supplies include

- most services;
- long-term commercial accommodation (at least one month of occupancy);
- parking space rentals;
- catering services for private functions (for example, wedding receptions);
- reception hall rentals;
- sales of used and donated property.

Sales of property and services described in the following sections are also exempt when certain conditions are met.

Fund-raising activities

Most property and services sold by a charity as part of a fund-raising activity are exempt unless

- the property or services are provided regularly or continually throughout the year, or for a significant part of the year (for example, through a hospital gift shop);
- clients are entitled to receive the property or services regularly or continually throughout the year, or for a significant part of the year (for example, a magazine subscription).

Example

A charity that sells Christmas cards does not charge tax on the cards, because the sales are exempt.

Admissions

Admission to a place of amusement is exempt if it does not exceed $1. A place of amusement is any place that presents films, slide shows, artistic presentations, fairs, circuses, races or athletic contests. It also includes museums, historical sites, wildlife parks, zoos, and places where bets are taken.

Admission fees for fund-raising events such as dinners, dances, shows and concerts are exempt if a portion of the fee constitutes a charitable donation that may be deducted in calculating income tax.

Example

A charity sells tickets for a fund-raising dinner at $100 each. Of that amount, $75 represents a charitable donation for income tax purposes. In this case, the full cost of the ticket is tax-exempt and no taxes should be charged.

Admission to a performance or an athletic or competitive event is exempt if 90% or more of the performers, athletes or competitors are not paid directly or indirectly for their participation. Government and municipal grants, reasonable amounts remitted as prizes, gifts, or allowances for travel or for other incidental expenses are not considered remuneration. In addition, no advertisement for the performance or event can feature paid participants.

You must collect GST and QST on admission to events where professional competitors compete for cash prizes (for example, professional golf tournaments).

Meals and lodging

Food, beverages and short-term accommodation (for less than one month) are exempt when provided by a charity to relieve the poverty, suffering, or distress of individuals.

Example

Meals provided by a charity at a soup kitchen are exempt.

Food or beverages are also exempt when provided by a charity to seniors, underprivileged individuals or individuals with a disability under programs (such as meals-on-wheels) designed to offer prepared meals in an individual's home. Food and beverages sold to a charity under such programs are also exempt.

Free property and services

Sales of property and services are exempt when all or substantially all (90% or more) of such sales are provided free of charge. However, this rule does not apply to blood or blood derivatives, which are zero-rated.

Property and services sold at direct cost

The direct cost of a property or service corresponds to its cost, including GST, QST and the duties and fees paid at the time of purchase. It also includes the cost of components and packaging, when the property is manufactured by the charity. It does not, however, include the QST rebate that may be claimed by a charity not registered for the GST and the QST. Nor does it include employee salaries or administrative or overhead expenses incurred to supply such property or services.

If you wish to recover only the direct cost of a property or service, you may elect to make the sale exempt, provided

- the sales price of the property or service does not exceed its direct cost and you do not charge GST and QST;
- the sales price of the property or service is less than its direct cost (excluding taxes) and you charge the taxes separately. In this case, however, the taxes are collected in error and must be remitted to Revenu Québec.

Example

You are a charity registered for the GST and the QST. You buy sweaters bearing your logo for $17.71 apiece, plus $0.89 GST and $1.40 QST. The direct cost of each sweater is thus $20.

- You sell the sweaters for $20 apiece and do not collect GST and QST. The sale is exempt because the price of each sweater does not exceed its direct cost.
- You sell the sweaters for $17 apiece and collect $0.85 GST and $1.34 QST. The sale is exempt because the price of each sweater is less than its direct cost (excluding taxes) and you charge the taxes separately. In this case, the taxes are collected in error and must be remitted to Revenu Québec.
- You sell the sweaters for $17.71 apiece and collect $0.89 GST and $1.40 QST. The sale is taxable because the price of each sweater is not less than its direct cost (excluding taxes) and you charge the taxes separately.

Gambling activities

If you organize a bingo or a casino night, you should know that the taking of bets and the sale of bingo cards are exempt.

If you organize a gambling event and charge a separate admission fee for that event, the fee is exempt provided 90% or more of the tasks are carried out by volunteers. As well, for the fee to be exempt in the case of a bingo or casino event, the activity must not be held in a place (including a temporary structure) that is used primarily for gambling activities.

Recreational programs

If you offer recreational programs intended primarily for children aged 14 or under, the related fees are exempt. They become taxable, however, if a large part of the program involves overnight supervision. Fees for recreational programs intended primarily for underprivileged individuals or individuals with a disability are exempt, even when such programs include board, lodging or recreational services at recreational camps.

A recreational program may include the following activities: athletics, outdoor recreation, music, dance, crafts, arts or hobbies.

Taxable sales

While most sales made by charities are exempt, some are taxable. You are required to collect GST and QST on these sales, provided they are not zero-rated.

The following sales are usually taxable:

- sales of movable property that you previously used in your commercial activities and for which you were able to claim ITCs and ITRs;

Example

A charity sells a printing press it used to print books intended for sale. The sale of the press is taxable.

- corporeal movable property that you purchased, manufactured or produced for resale for a price higher than its direct cost, and any service you provided with the property, unless the property or service is sold under a contract with a catering service. However, sales of used property or property donated to the charity remain exempt;
- admission to a place of amusement if the admission charged is more than $1;
- memberships that entitle members to benefits such as free or discounted admissions to a place of amusement (for example, a museum, theatre or recreational complex), provided the admission is taxable at 5%[1] GST and 7.5% QST when sold separately. However, if the value of the benefit is insignificant (less than 30%) in relation to the membership fee, the membership is exempt from GST and QST;
- services of performing artists, if you provide the services to another organization that is selling taxable admissions to the performance;
- a property or service that is zero-rated (for example, basic groceries, medical devices or prescription drugs). However, if the property or service is provided free of charge or at a nominal value, it is exempt.

Example

A charity sells a wheelchair. The sale is taxable at 0%.
The charity donates a wheelchair or sells it for less than its value. The gift or sale is exempt.

1. This rate was 6% from July 1, 2006, to December 31, 2007. It was previously 7%.

Designated charities

The main role of certain charities is to provide employment-related services to individuals with disabilities. Such services include occupational training, employment placement and instruction in job-seeking skills. These charities may apply for designation. Once a charity is designated, the services it provides may become taxable, in which case they must be provided to GST-QST registrants. However, such employment-related services are exempt when provided to a public sector body or to a board, commission or other body established by a government or municipality.

Designated charities may claim ITCs and ITRs for taxes paid on expenses related to taxable services and calculate their net tax according to the general rules. Consult the guide *General Information Concerning the QST and the GST/HST* (IN-203-V).

Special cases

The GST and the QST do not apply to the following transactions.

Donations and gifts

A donation or gift is a voluntary transfer of money or property for which the donor does not receive any benefit in return.

The GST and the QST do not apply to donations and gifts. Nor do they apply if the donor receives property in return that has little or no resale value, such as a key ring or a pin.

Grants and subsidies

Grants and subsidies can range from a simple contribution to a charity, to sums provided for major government-funded projects. The GST and the QST do not usually apply to such payments if the grantor does not receive any property or services in return.

However, if there is a direct link between a payment you receive and a supply you provide to either the grantor of the payment or to a third party, the amount may be regarded as payment for a supply. If this is the case, the payment may be taxable and tax may need to be collected on the amount. Generally, no taxes are collected for services because most services provided by charities are exempt.

Sponsorships

If you are sponsored by a business in exchange for promotional services, the sums you receive are not subject to GST and QST.

However, if the promotional services primarily involve advertising on television or radio, or in a newspaper, magazine or other periodical, they constitute a supply of an advertising service. Such a service is exempt when provided by a charity.

Example

The players on your soccer team wear uniforms that display the name of a business that sponsors them. The sums paid to you by the business are not subject to GST and QST.

Tax rebates

Charities are eligible for a rebate of 50% of the GST and QST paid on purchases of taxable (other than zero-rated) property and services for which they cannot claim ITCs or ITRs.

Example

A charity that provides a meals-on-wheels service to underprivileged individuals purchases disposable dinnerware for $200. The charity is not entitled to ITCs or ITRs because the sales of the meals are exempt. However, it may claim a rebate of 50% of the GST and QST paid on the dinnerware it purchased.

GST rebate

$200 x 5% x 50% = $10.00 x 50% = **$5.00**

QST rebate

[($200 + $10.00) x 7.5%] x 50% = $15.75 x 50% = **$7.88**

If you purchase property or services in one of the provinces in which the HST applies, you may claim a rebate of the HST paid.

Eligible expenses

You can claim a rebate for most of the expenses you incur, provided you are not entitled to ITCs or ITRs in their regard. However, certain expenses, such as purchases of alcoholic beverages and tobacco products, do not give entitlement to the rebate.

If you **are not registered** for the GST and the QST, most of your expenses are eligible. Since you cannot claim ITCs or ITRs, the expenses you incur for both taxable and exempt sales give entitlement to the rebate.

If you **are a registrant**, and you use the simplified net tax calculation method, you are entitled to a rebate for the taxes you paid on most of your expenses, since you cannot claim ITCs or ITRs in their regard. Consult the section "Simplified net tax calculation method," on page 27.

The following expenses give entitlement to a rebate:

- general operating and overhead expenses, such as rent, utilities, and administration expenses;
- certain allowances and reimbursements you paid to employees and volunteers;
- property and services used, consumed or provided for your exempt activities;
- capital property that you intend to use mostly (more than 50%) for activities that are exempt at the time the property is purchased.

The following expenses do not give entitlement to a rebate:

- memberships in a club, if the main purpose of the club is to provide dining, recreational or sporting facilities to its members;
- alcoholic beverages that you buy for resale without a meal, when no taxes are payable on the resale of such beverages;
- property or services that you buy to provide long-term residential accommodation, unless at least 10% of the accommodation is restricted to seniors, youths, students, the underprivileged, individuals with a disability or who are in distress, or individuals with limited financial resources who qualify under a means or income test;
- property or services purchased primarily for the supply of a parking space made available to residential tenants, unless at least 10% of the accommodation is restricted to seniors, youths, students, the underprivileged, individuals with a disability or who are in distress, or individuals with limited financial resources who qualify under a means or income test.

Purchases related to activities of a municipal nature

There are additional restrictions under the QST system with regard to the rebate for charities. Property and services acquired to carry out exempt activities of a **municipal nature** do not give entitlement to the QST rebate.

Such exempt activities include

- a recreational program intended primarily for children aged 14 or under, or for underprivileged individuals or individuals with a disability, if the program is intended for a clientele defined by its inclusion within the territory of a municipality;
- the supply of a right conferring borrowing privileges at a public library, if such privileges are intended for a clientele defined by its inclusion within the territory of a municipality.

Rebate applications

You have up to four years to apply for the rebate. When you file an application for the first time, you have to complete form FPZ-66-V, *GST/HST Rebate Application for Public Service Bodies,* for GST purposes, and form VDZ-387-V, *Application for QST Rebate for Public Service Bodies,* for QST purposes. After we process your application, we will send you a personalized version of these forms for your next rebate application.

If you are not registered for the GST and the QST, you must submit one application for the first six months of your fiscal year and another for the last six months. If you are registered, your application periods correspond to your reporting periods, and you may apply for the rebate when you file your return.

If your organization has several branches or divisions, you may apply for authorization to have them file separate rebate applications. Each branch or division must be separately identified by its location or the nature of its activities, and must keep separate records, books of account and accounting systems. To apply for authorization, you must complete form FP-2010-V, *Application to File Separate Returns – Request to File Separate Rebate Applications – Revocation of Application or Request.*

Simplified method for calculating the rebate

You may use the simplified method to calculate the rebate regardless of the method you employ to calculate your net tax payable. When you use the simplified method, you do not have to keep track of the GST and QST indicated on each invoice. You must, however, determine the purchases on which you paid GST and QST. You do not have to complete any forms to use this method.

You may use the simplified method if you meet the following conditions:

- Your taxable (other than zero-rated) purchases for the previous fiscal year did not exceed $2 million and are not expected to exceed that amount for the current fiscal year.
- Your taxable sales for the previous fiscal year did not exceed $500,000 and are not expected to exceed that amount for the quarters ended in the current fiscal year.

To calculate your GST and QST rebates, follow the steps below:

- **Calculate your total purchases (other than immovables)**

  Add up your taxable purchases for which you paid GST and QST.

  In calculating this total, **include** the purchase price, GST and QST, interest and penalties paid to your suppliers for late payments, reasonable tips and import duties. Also include purchases made by your employees or volunteers on your behalf.

  Do not include purchases for which you may claim an ITC or an ITR, expenses on which you did not pay GST or QST, purchases from non-registrants, the portion of meal and entertainment expenses that does not give entitlement to an ITC or an ITR, and purchases of immovables.

  If you are a registrant, apportion your purchases between your commercial activities and your exempt activities.

  Note that for the purpose of calculating the GST rebate, total purchases exclude the refundable portion of QST.

- **Calculate the taxes on your purchases (other than immovables)**

  Multiply your total purchases by 5/105[1] to calculate the GST and by 7.5/107.5 to calculate the QST.

- **Calculate the total taxes on your purchases (immovables and other purchases)**

  Add the taxes on your purchases (except taxes paid on immovables) and the GST and QST paid on purchases of immovables for which you may not claim ITCs or ITRs.

- **Calculate your rebate**

  Multiply the total taxes on your purchases (immovables and other purchases) by 50%.

1. This tax fraction was 6/106 from July 1, 2006, to December 31, 2007. It was previously 7/107.

Other rebates

Exported property and services

Whether registered or not for the GST and the QST, charities can claim a rebate to recover 100% of the GST and QST they paid to their suppliers on property and services exported outside Canada (or sent outside Québec, for QST purposes) and for which they cannot claim ITCs and ITRs.

Claim the GST rebate on form FPZ-66-V, *GST/HST Rebate Application for Public Service Bodies,* and the QST rebate on form VDZ-387-V*, Application for QST Rebate for Public Service Bodies*.

Example

A charity that uses medical equipment in a clinic located in Central America may claim a GST rebate and a QST rebate for the taxes it paid on the equipment exported.

Printed books

Charities that operate a public lending library can claim a rebate of 100% of the GST (or of the federal part of the HST) they paid on the purchase of publications such as printed books, audio recordings of printed books and printed versions of religious scriptures, if these items are not acquired to be resold or given away.

Charities whose main purpose is to promote literacy must contact the Canada Revenue Agency (CRA) in order to be recognized in this capacity by regulation and to be entitled to claim the GST rebate.

The application must be submitted on form FPZ-66-V, *GST/HST Rebate Application for Public Service Bodies*.

For more information, consult the memorandum *Rebates for Printed Books, Audio Recordings of Printed Books, and Printed Versions of Religious Scriptures* (13.4), available on the CRA website at **www.cra-arc.gc.ca**.

This measure does not apply under the QST system. The sale of printed books identified by an International Standard Book Number (ISBN) is zero-rated for the purposes of the QST.

ITCs and ITRs

As a rule, GST and QST registrants may claim a refund of the taxes they pay on property and services acquired for their commercial activities. The refund takes the form of input tax credits (ITCs) under the GST system and input tax refunds (ITRs) under the QST system. However, charities as a rule must use the simplified net tax calculation method. They may claim ITCs and ITRs only with respect to the taxes paid to acquire or make improvements to capital property or immovables.

Most of the sales made by a charity are tax-exempt and therefore do not give entitlement to ITCs and ITRs. However, you may obtain a rebate of 50% of the GST and QST you pay on purchases to make exempt sales. Consult the section "Tax rebates" on page 19.

As a rule, registrants claim their ITCs and ITRs when they file their GST and QST returns for the reporting period during which the purchases were made. However, you generally have up to four years in which to claim ITCs and ITRs.

Capital property

Capital property is depreciable property for which capital cost allowance may be claimed; it can also be non-depreciable property for which any gain or loss (particularly following its sale) would result in a capital gain or capital loss. Capital property includes immovables, such as land and buildings, and movable property, such as photocopy machines, office furniture, cash registers and equipment.

Certain rules apply when you claim ITCs and ITRs in respect of capital property:

- If such property is used in a proportion of more than 50% in your commercial activities, you may claim an ITC and an ITR equal to the full amount of GST and QST paid.
- If the percentage of commercial use is 50% or less, you are not entitled to an ITC or an ITR, but you may claim the rebate of 50% of the GST and QST paid.

Commercial use	ITCs and ITRs	Rebate
50% or less	None	50% of the taxes paid
More than 50%	Taxes paid	None

Example

You buy office furniture for $2,000, plus $100 GST and $157.50 QST. You will use the furniture in a proportion of 60% in your commercial activities and 40% in your exempt activities.

Since the percentage of commercial use of the furniture is more than 50%, you may claim an **ITC** of **$100** and an **ITR** of **$157.50**.

You may elect to have certain exempt sales of immovables treated as sales taxable at 5%[1] GST and at 7.5% QST. To find out what ITCs and ITRs you can claim, consult the section "Special election for immovables" on page 33.

Change in use

Your use of capital property may change over the years. You will have to recover or pay GST and QST for certain changes in use.

Capital property that you used in a proportion of more than 50% in your exempt activities is now used in a proportion of more than 50% in your commercial activities.

You may claim ITCs and ITRs to recover all or a portion of the GST and QST you paid.

The ITCs or ITRs you may claim for such property are equal to the amount of GST or QST that you paid on the property and on any improvements made. However, you must deduct any amounts (other than ITCs or ITRs) that you were entitled to recover by rebate, remission or otherwise. You must also take into account any depreciation in the value of the property.[2]

Capital property that you used in a proportion of more than 50% in your commercial activities is now used in a proportion of more than 50% in your exempt activities.

You must reimburse all or a portion of the ITCs and ITRs you claimed.

The GST or QST that you must remit for such property is equal to the GST or QST that you paid on the property and on any improvements made. However, if the property was acquired for your exempt activities, you must deduct any amounts (other than ITCs or ITRs) that you were entitled to recover by rebate, remission or otherwise. You must also take into account any depreciation in the value of the property.[2]

1. This rate was 6% from July 1, 2006, to December 31, 2007. It was previously 7%.
2. In the *Excise Tax Act* and the *Act respecting the Québec sales tax*, reference is made to the basic tax content.

Example

In 2008, you bought office furniture that was to be used in a proportion of 60% in your exempt activities. You paid $1,500 for the furniture, plus $75 GST and $118.13 QST. You claimed a rebate of 50% of the taxes you paid: that is, a GST rebate of $37.50 and a QST rebate of $59.07.

In 2009, you began to use the furniture in a proportion of 60% in your commercial activities. The fair market value of the furniture was $1,200 (excluding taxes) at the time of the change in use.

The ITC and the ITR to which you are entitled are as follows:

ITC = ($75 - $37.50) x $1,200 / $1,500 = **$30**

ITR = ($118.13 - $59.07) x $1,260 / $1,575 = **$47.25**

Calculating the net GST and QST

Most charities that are registered for the GST and the QST must use the simplified net tax calculation method when they complete their returns. They cannot use the Special Quick Method of Accounting reserved for public service bodies.

You may, however, elect not to use the simplified net tax calculation method if you are in one of the following situations:

- You make sales outside Canada (or outside Québec, for QST purposes) in the ordinary course of a business.
- You make zero-rated sales in the ordinary course of a business.
- Substantially all (90% or more) of your sales are taxable.

To make the election, complete and return the form *Election or Revocation of an Election not to Use the Net Tax Calculation for Charities* (FP-2488-V). You then calculate your net tax according to the general rules.

Designated charities cannot use the simplified net tax calculation method. Consult the section "Designated charities" on page 17.

Simplified net tax calculation method

Under the simplified net tax calculation method, charities must remit 60% of the taxes charged (collected and collectible). In the case of capital property, however, all of the taxes collected or collectible must be remitted. Please note that if you use this method, you can claim ITCs and ITRs only with respect to taxes paid to purchase or make improvements to capital property or immovables. Consult the section "Capital property" on page 24.

Charities that use the simplified net tax calculation method may claim a rebate of 50% of the GST and QST they pay in respect of property and services that do not give entitlement to ITCs or ITRs, even if the sales are taxable.

To calculate your GST and QST rebates, follow the steps described below:

Calculation of tax payable

Add the following amounts:

- 60% of the tax charged (collected or collectible) on taxable sales (other than sales of capital property or immovables);
- the tax charged on taxable sales (including deemed sales) of capital property or immovables;
- the tax payable on property or services you appropriated to a member or relative of a member of the charity;
- the tax payable on property or services that you provided to an employee, where the property or services are a taxable benefit for income tax purposes;

- the tax collected on sales you made as the agent of a person with whom it is agreed that you will account for the tax;
- a tax adjustment you made further to the recovery of a bad debt related to the taxable sale of capital property or an immovable;
- a tax adjustment you made further to the acquisition of immovables or capital property for which you had previously claimed ITCs and ITRs;
- any amount carried forward from a reporting period for which you were not required to file a return and that must be included in the calculation of your net tax. You can apply for authorization not to file returns for periods in which you have $1,000 or less in tax to report.

Calculation of the amounts to be deducted

Add the following amounts:

- the ITCs (or ITRs) you are claiming for purchases of or improvements to immovables or capital property;
- the ITCs (or ITRs) for property sold by a person acting as your agent;
- 60% of the tax adjustments that you gave in the period to buyers of certain property or services;
- any tax adjustment you gave or bad debt you wrote off during the period in relation to the sale of immovables or capital property.

Calculation of net tax

Subtract the amounts to be deducted from the tax payable.

Example

A charity that is registered for the GST and QST operates an art gallery and uses the simplified net tax calculation method. Its main source of revenue is taxable gallery admissions. During its reporting period, it earned exempt revenues from a parking lot and held a fund-raising dinner for which admission was also exempt. In addition, it acquired computer equipment and installed a ventilation system for use primarily in its commercial activities. Its taxable revenues and expenses are as follows:

Taxable revenues		**Taxable expenses (excluding GST and QST)**	
Gallery admissions	$20,000.00	Contracted services (security, maintenance)	$3,000
Sales from gift shop	$5,000.00	Utilities	$1,500
Total	**$25,000.00**	Ventilation system	$9,200
GST collected ($25,000 x 5%)	$1,250.00	Computer equipment	$2,000
Subtotal	$26,250.00	Gift shop inventory	$2,500
QST collected ($26,250 $ x 7.5%)	$1,968.75	Catering services for fund-raising dinner	$3,500
Total	**$28,218.75**	**Total**	**$21,700**

Calculation of net GST

GST payable:
60% of the GST charged, that is, $1,250 x 60% = $750

Calculation of amounts to be deducted:
GST paid for the ventilation system (improvements made to an immovable) and computer equipment (purchase of capital property) to be used in the gallery's commercial activities.
ITC = 5% x ($9,200 + $2,000) = $560

Calculation of net GST:
The net GST is **$190** ($750 – $560).

Calculation of net QST

QST payable:
60% of the QST charged, that is, $1,968.75 x 60% = $1,181.25

Calculation of amounts to be deducted:
QST paid for the ventilation system (improvements made to an immovable) and computer equipment (purchase of capital property) to be used in the gallery's commercial activities
ITR = 7.5% x ($9,200 + $2,000 + $560 GST) = $882.00

Calculation of net QST:
The net QST is **$299.25** ($1,181.25 – $882.00).

The charity is also entitled to a rebate for taxes paid on expenses that do not give entitlement to ITCs and ITRs in the calculation of its net tax, that is, expenses other than those for the ventilation system and computer equipment.

GST and QST rebates

Total taxable expenses other than expenses for the ventilation system and computer equipment
$21,700 - ($9,200 + $2,000) = $10,500

GST paid on these expenses:
5% x $10,500 = $525

GST rebate
50% x $525 = **$262.50**

QST paid on these expenses:
7.5% x ($10,500 + $525) = $826.88

QST rebate
50% x $826.88 = **$413.44**

Immovables

This section discusses the various rules applicable to immovables such as land and buildings.

Sales and leases

Most sales and leases of immovables by charities are exempt. **Taxable** (other than zero-rated) sales and leases of immovables include

- sales of new houses;
- sales of vacant land to an individual;
- sales of immovables that a charity uses primarily (more than 50%) in its commercial activities (that is, an immovable for which you may claim an ITC or an ITR);
- sales and leases of immovables that you choose to treat as taxable. Consult the section "Special election for immovables" on page 33.

ITCs and ITRs

To claim ITCs and ITRs in respect of immovables, you must observe certain rules. If such property is used in a proportion of more than 50% in your commercial activities, you may claim an ITC and an ITR equal to the full amount of GST and QST paid. If the percentage of use is 50% or less, you may not claim an ITC or an ITR, but you are entitled to the rebate of 50% of the taxes paid to acquire the capital property. Consult the section "Tax rebates" on page 19.

Commercial use	ITCs and ITRs	Rebate
50% or less	None	50% of the taxes paid
More than 50%	Taxes paid	None

The use of an immovable may change over the years. If an immovable that was used in a proportion of more than 50% in your exempt activities is now used primarily in your commercial activities, you may claim ITCs and ITRs. On the other hand, if an immovable that was used in a proportion of more than 50% in your commercial activities is now used primarily in your exempt activities, you may have to reimburse the ITCs or ITRs you claimed earlier. For information on the rules that apply in such situations, consult the section "Change in use" on page 25.

Subsidized residential complexes

The following rules apply to charities that receive government funding to build a residential complex, where they intend to lease at least 10% of the residential units to seniors, youths, students, individuals with a disability, or individuals with limited financial resources.

In this case, government funding means an amount of money designed to help you build the residential complex, or a forgivable loan that is granted by a government (federal or provincial), a municipal administration, an Indian band, or a body established by a government or an administration to fund charitable or non-profit endeavours on its behalf.

During the construction of the residential complex, you may register for the GST and the QST, and may thus claim ITCs and ITRs for the property and services you buy. If you are not registered, you are entitled to the rebate of 50% of the GST and QST paid.

When the construction is substantially completed, and you lease the first residential unit for use by an individual as a place of residence, the building is deemed to have been sold and reaquired. You must then calculate and remit the GST and QST, which will be the greater of the following amounts:

- the GST and QST calculated on the fair market value of the residential complex; or
- the GST and QST paid on the acquisition of the land, on the construction of the building or on any improvements to the property.

You are considered to have reaquired the immovable for the value of the deemed sale. You may claim a rebate of 50% of the GST and QST you paid, calculated on this value, since you use the immovable to lease residential units (exempt lease).

If you are not registered for the GST and the QST, you may claim an additional rebate, which is equal to the lower of the following amounts:

- the taxes paid on the deemed purchase; or
- the basic tax content of the value of the immovable at that time. The basic tax content is the GST and QST you paid for the construction of the immovable minus the 50% rebate, multiplied by the fair market value of the immovable over the cost of its construction.

Example

A charity registers for the GST and the QST in order to build a multiple-unit residential complex for seniors. It receives government funding for the building's construction. The organization paid $10,000 GST and $15,750 QST on the purchase of the land, and $48,750 GST and $76,781 QST on the construction of the building. It claimed ITCs and ITRs to recover the taxes. The building's fair market value is less than the cost of the land and the construction.

When the charity first leases a unit in the complex to an individual as a place of residence, it must remit GST and QST equal to the taxes it paid on the purchase of the land and the construction of the building. In other words, it must remit **$58,750** ($10,000 + $48,750) **GST** and **$92,531** ($15,750 + $76,781) **QST**.

However, the charity may claim a rebate of the taxes paid, that is, **$29,375** (50% x $58,750) in **GST** and **$46,265.50** (50% x $92,531) in **QST**.

Special election for immovables

Most sales and leases of immovables by charities are exempt. Even if you are a registrant, you may not claim ITCs and ITRs to recover the taxes you paid on the acquisition of immovables used primarily in the course of your exempt activities, or on any improvements to such immovables. Consult the section "ITCs and ITRs" on page 24.

However, you may elect to have the exempt sale and lease of an immovable treated as taxable. This election allows you to claim ITCs and ITRs in respect of the GST and QST you paid on the immovable, based on the extent to which it is used for commercial purposes. For example, an immovable that is used in a proportion of more than 10% in your commercial activities gives entitlement to ITCs and ITRs in respect of the GST and QST paid on the acquisition of the immovable, on any improvements made and on expenses related to the immovable, based on the percentage of commercial use. If the percentage of commercial use is 10% or less, you cannot claim ITCs or ITRs. If the percentage of commercial use is 90% or more, you may claim ITCs and ITRs equal to the full amount of GST and QST you paid. The rule pertaining to primary use (50% rule) that a charity generally follows in claiming ITCs and ITRs for immovables does not apply in such cases. Consult the section "Capital property" on page 24.

You may elect to have the exempt sale and lease of an immovable treated as taxable in the following cases:

- The immovable is capital property.
- The immovable is held in inventory for sale or lease.
- The immovable is leased for the purpose of re-leasing it.

An immovable comprises both the land and the buildings located on the land.

To make this election, you must submit form FP-2626, *Election or Revocation of the Election by a Public Service Body to Have an Exempt Supply of Real Property (an Immovable) Treated as a Taxable Supply*.

Forms and publications

The documents referred to in this chapter are available at all offices of Revenu Québec and on our website at **www.revenu.gouv.qc.ca**.

Main forms

Non-registrants must complete the forms below to claim a rebate, as applicable. The relevant guides are also listed.

Subject	GST	QST	GST-QST
Rebate application for public service bodies	FPZ-66-V	VDZ-387-V	
Guide to the rebate application for public service bodies	FP-66.G-V		
Public service bodies: Detailed calculations		VDZ-387.G-V	

Registrants must complete the forms below for each reporting period, as applicable. The relevant guides are also listed.

Subject	GST	QST	GST-QST
Rebate application for public service bodies	FPZ-66-V	VDZ-387-V	
Guide to the rebate application for public service bodies	FP-66.G-V		
Public service bodies: Detailed calculations		VDZ-387.G-V	
Return	FPZ-34-V	VDZ-471-V	FPZ-500-V or FPZ-500.AR-V

Other forms

Subject	GST-QST
Special-Purpose Return	FP-505-V
Request for Cancellation or Variation of Registration	FP-611-V
Application by a Public Service Body to Have Branches or Divisions Designated as Small-Supplier Divisions	FP-631-V
Application by an Unincorporated Organization to Be Considered a Branch of Another Unincorporated Organization	FP-632-V
Application to File Separate Returns - Request to File Separate Rebate Applications - Revocation of Application or Request	FP-2010-V
Election or Revocation of an Election not to Use the Net Tax Calculation for Charities	FP-2488-V
Election or Revocation of the Election by a Public Service Body to Have an Exempt Supply of Real Property (an Immovable) Treated as a Taxable Supply	FP-2626-V

Publications

Directors' Liabilities	IN-107-V
Should I Register with Revenu Québec?	IN-202-V
General Information Concerning the QST and the GST/HST	IN-203-V

To contact us

Online

We invite you to visit our website at **www.revenu.gouv.qc.ca**.

By telephone

Hours of availability for telephone service
Monday, Tuesday, Thursday and Friday: 8:30 a.m. to 4:30 p.m.
Wednesday: 10:00 a.m. to 4:30 p.m.

Individuals and individuals in business

Québec City	Montréal	Elsewhere
418 659-6299	**514 864-6299**	**1 800 267-6299** (toll-free)

Businesses, employers and agents for consumption taxes

Québec City	Montréal	Elsewhere
418 659-4692	**514 873-4692**	**1 800 567-4692** (toll-free)

Persons with a hearing impairment

Montréal	Elsewhere
514 873-4455	**1 800 361-3795** (toll-free)

By mail

Individuals and individuals in business

Montréal, Laval, Laurentides, Lanaudière and Montérégie
Direction principale des services à la clientèle des particuliers
Revenu Québec
C. P. 3000, succursale Place-Desjardins
Montréal (Québec) H5B 1A4

Québec and other regions
Direction principale des services à la clientèle des particuliers
Revenu Québec
3800, rue de Marly
Québec (Québec) G1X 4A5

Businesses, employers and agents for consumption taxes

Montréal, Laval, Laurentides, Lanaudière, Montérégie, Estrie and Outaouais
Direction principale des services à la clientèle des entreprises
Revenu Québec
C. P. 3000, succursale Place-Desjardins
Montréal (Québec) H5B 1A4

Québec and other regions
Direction principale des services à la clientèle des entreprises
Revenu Québec
3800, rue de Marly
Québec (Québec) G1X 4A5

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