



GST/HST Overview & CRA Audit Landscape

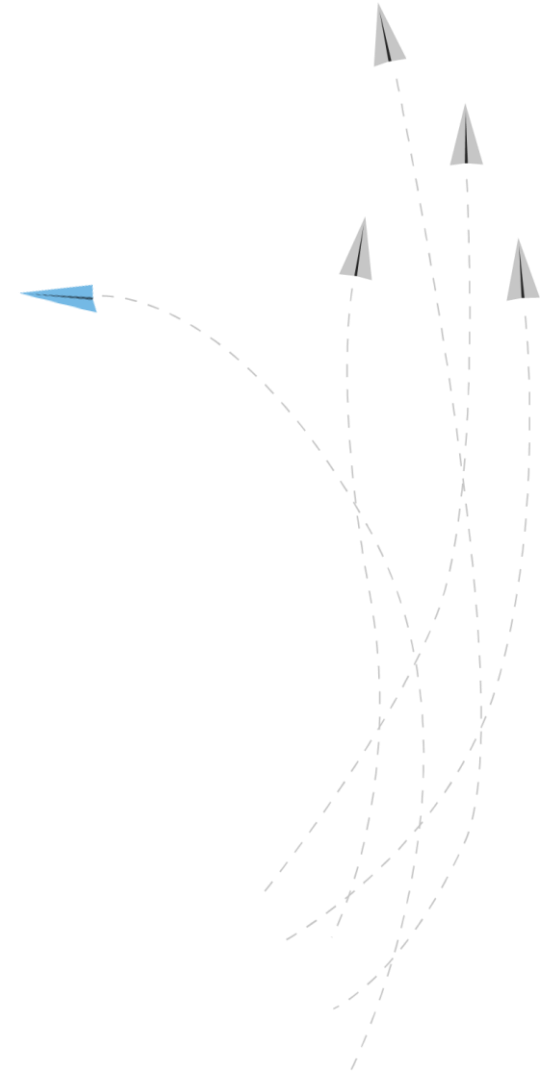
Municipal Finance Officers of Ontario

September 21, 2018



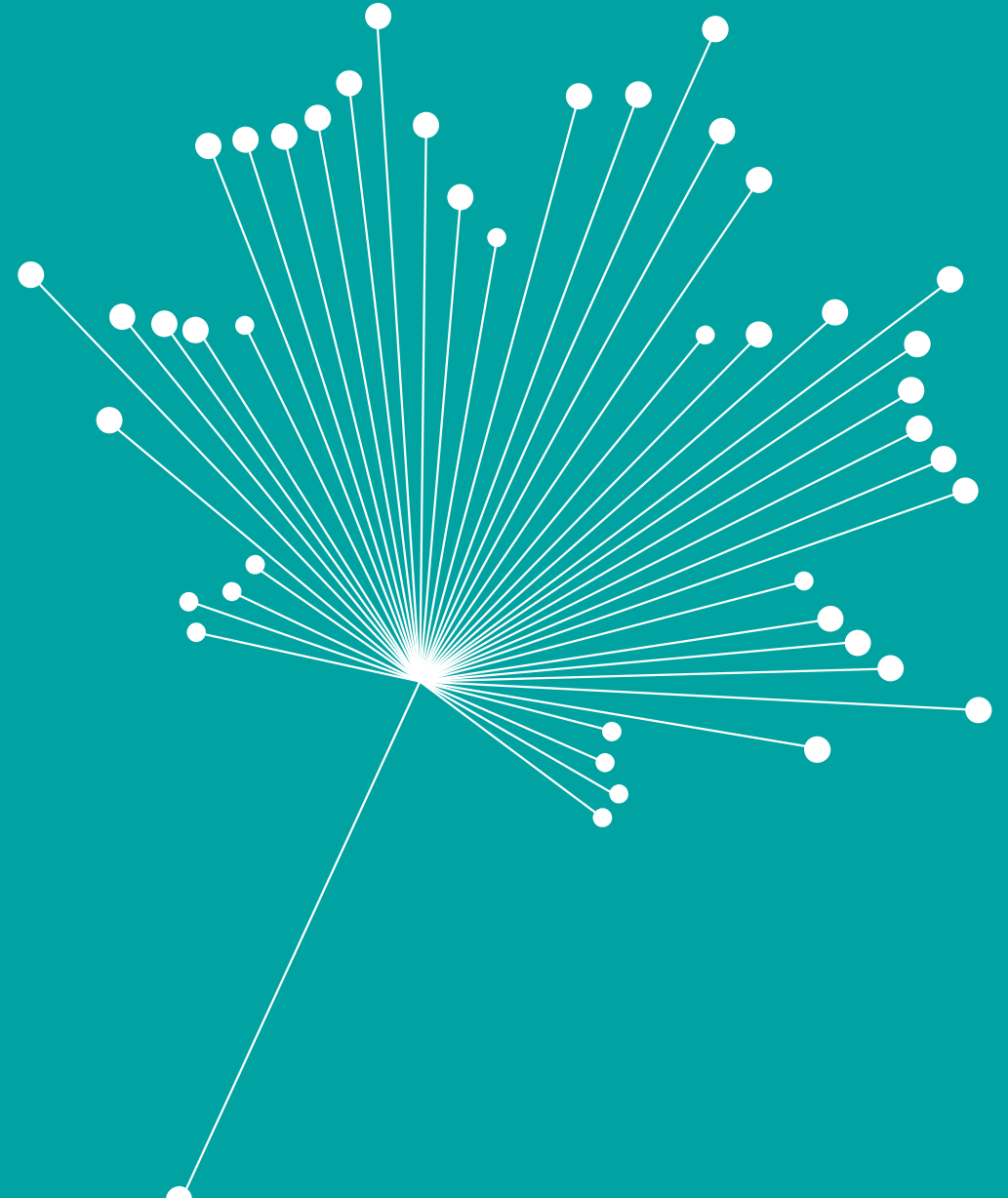
Session Objectives

- 1** GST/HST Overview
- 2** Legislation and Rulings Update
- 3** CRA Audit Process Review
- 4** Municipal GST/HST Audit Issues

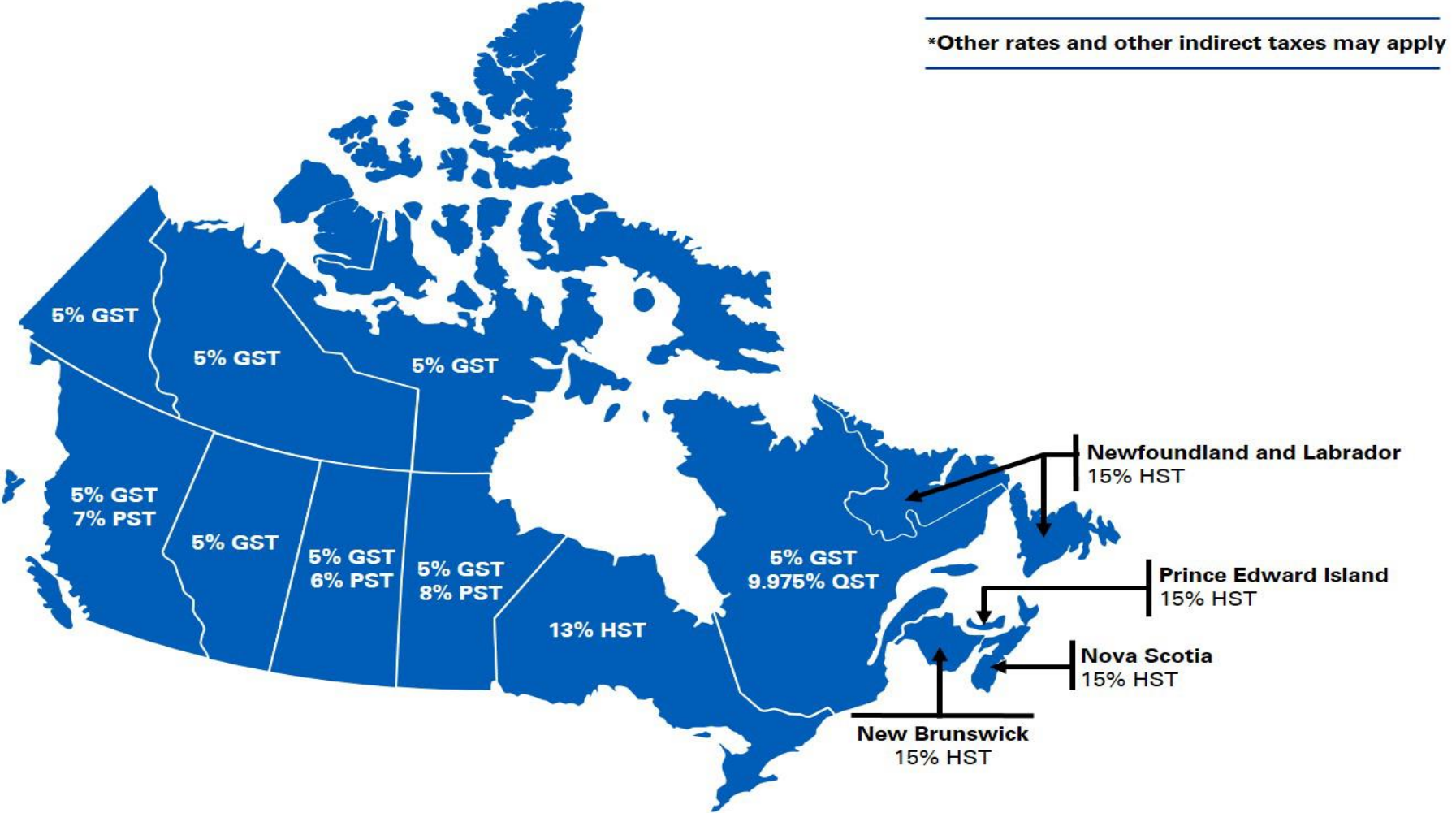




GST/HST Overview



GST/HST Overview



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GST/HST Overview

MUSH Sector
is one of the
more complex
areas of
GST/HST...



2004: GST Rebate  100%

1

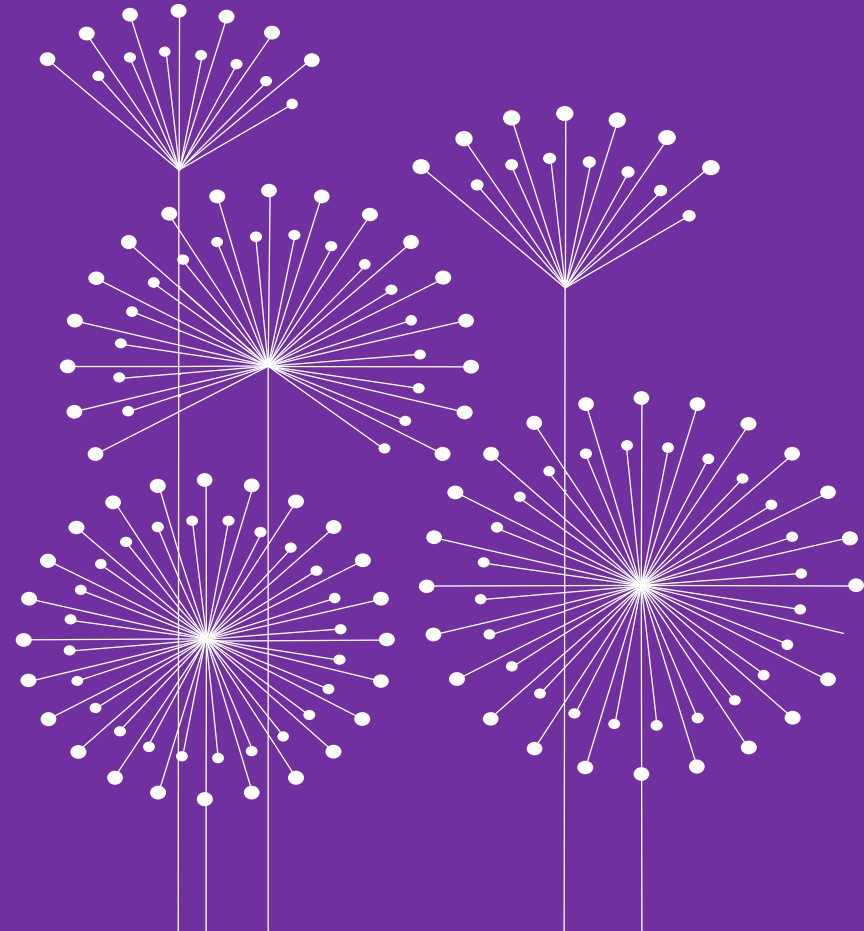
Many municipal supplies that were exempt became taxable

2

Provinces that harmonized do not provide a full rebate of PVAT. E.g. 78% in Ontario



Legislation and Rulings Overview



Legislative Overview-Claiming Missed Rebates

GST/HST paid or payable must be claimed within period.

CRA required PSBs to amend previously filed applications to claim missed rebates.

This could technically result in numerous amendments to a rebate application.

Previously

Can claim rebate amounts in a subsequent period, that were not previously claimed, where certain criteria are met such as application is made within 2 years after the particular rebate application was due

After September 2017



Legislative & Rulings Review

1

Electric Vehicle Charging Stations
Charges for use fees subject to GST/HST

2

Law Enforcement Officer Sharing Arrangement
Salary share arrangement determined to be subject to GST/HST

3

Sale of Books Online
Sale of online books determined to be taxable for GST/HST

4

Overweight Load Permits
Determined to be exempt from GST/HST

5

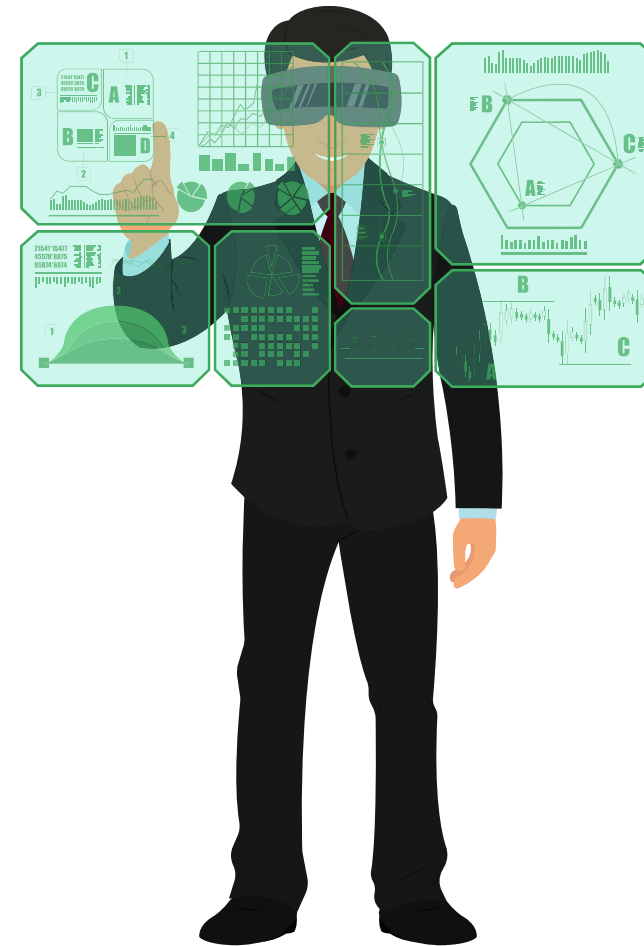
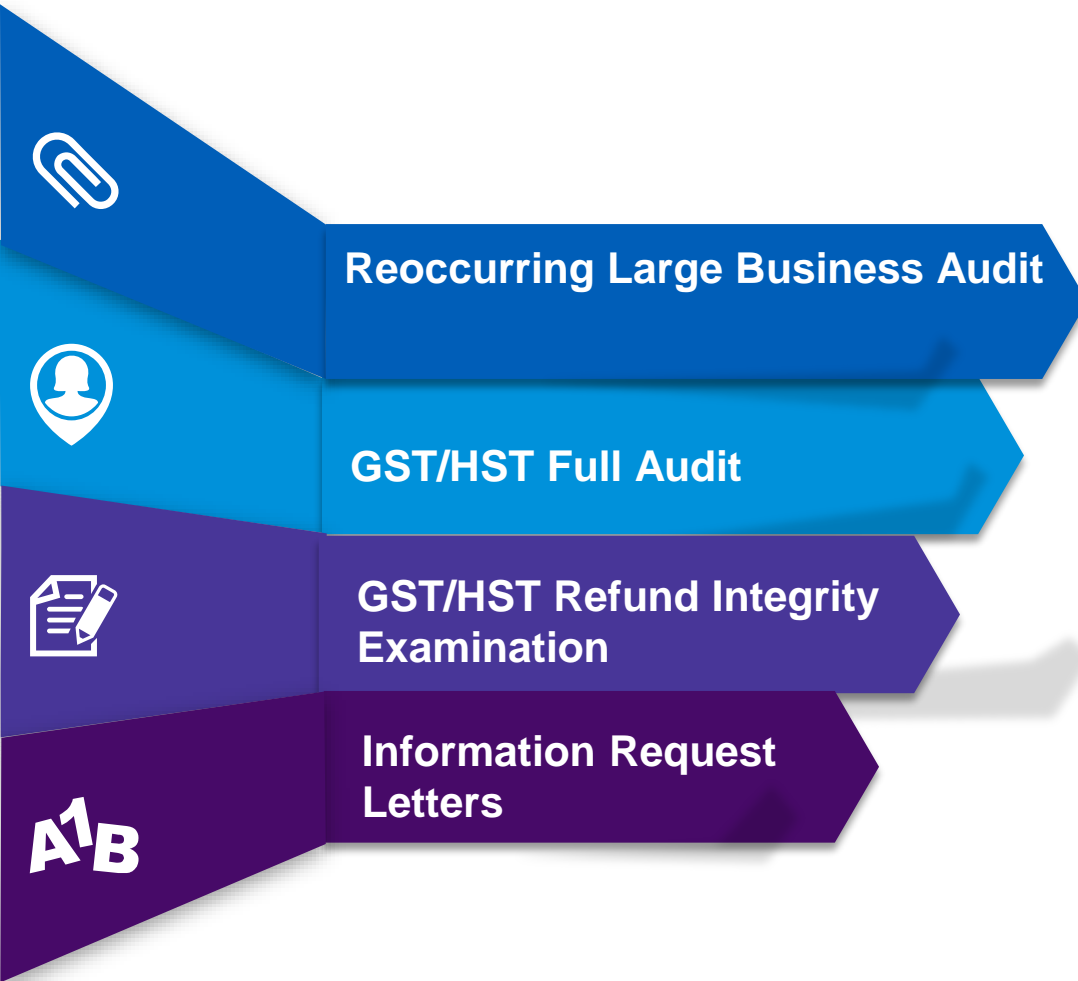
Municipal Officers Allowances
No notional ITCs 2019 onwards (income taxable)



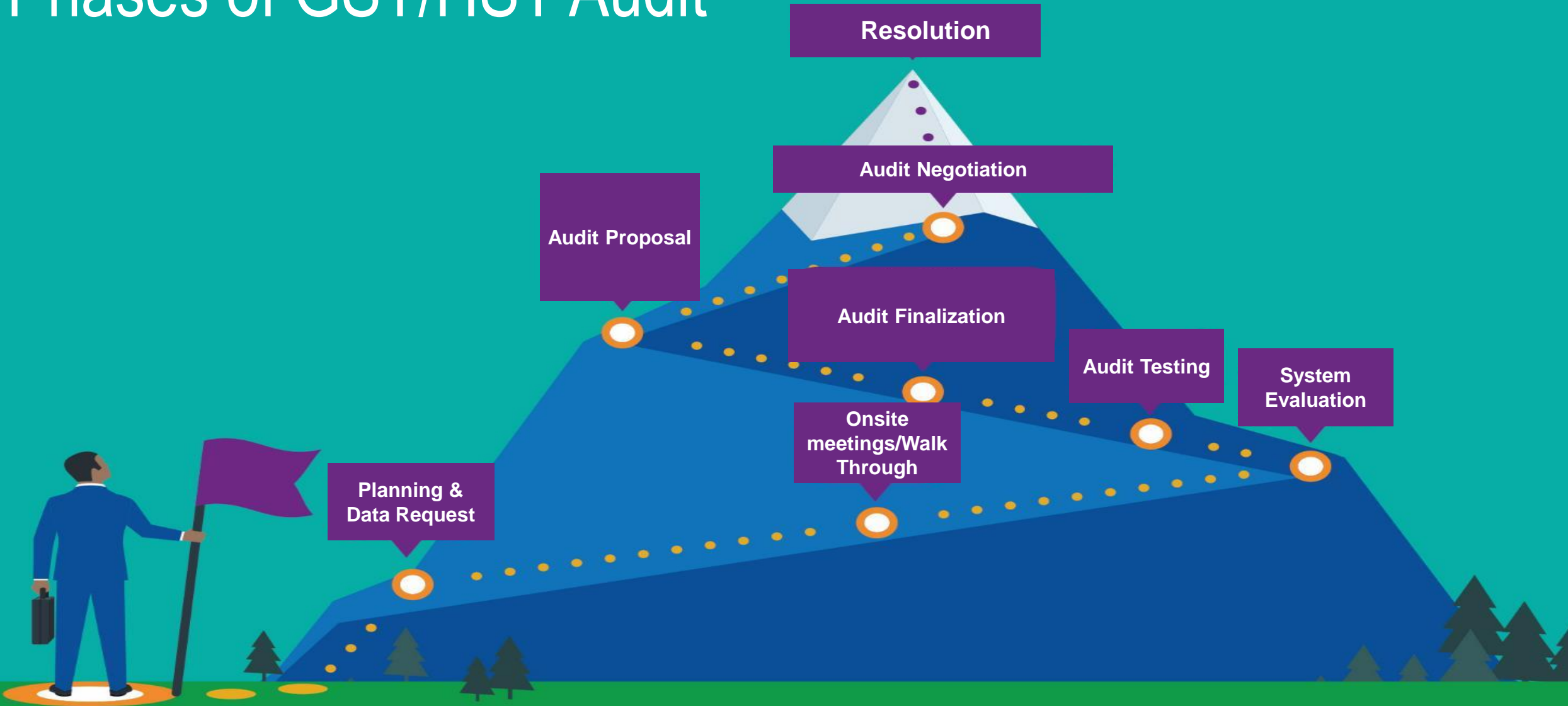
CRA Audit Process Review



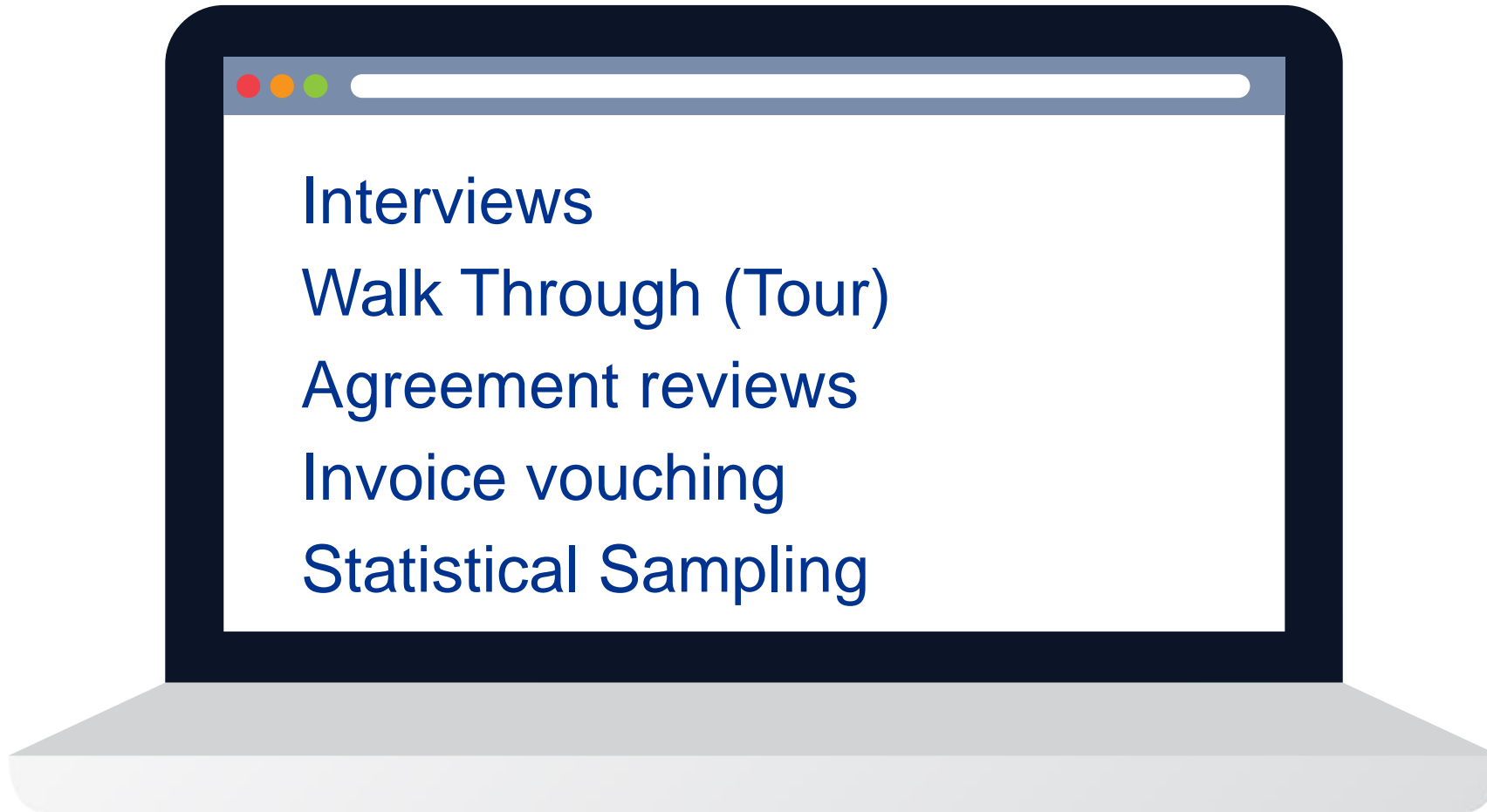
Types of CRA Audit Activity



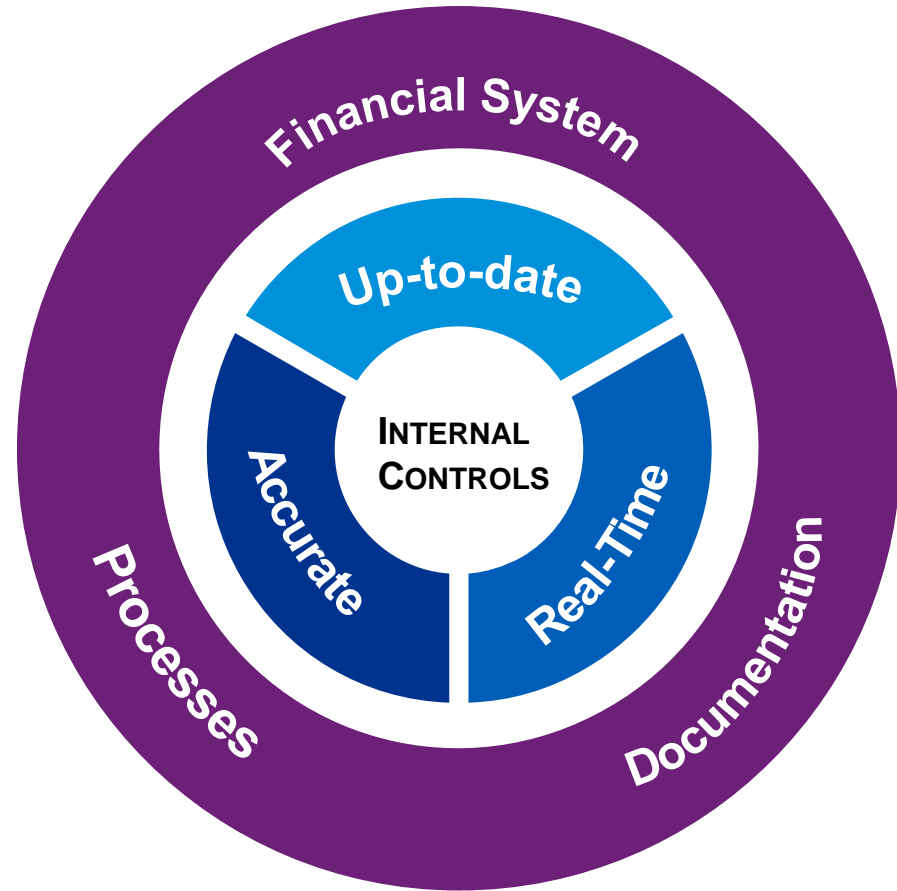
Phases of GST/HST Audit



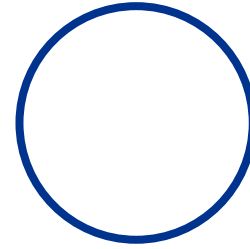
Audit Techniques



Audit Perception of Risk



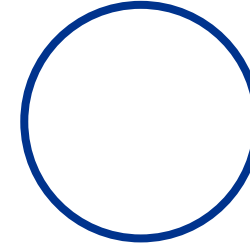
Risk perception drives the audit



Financial System

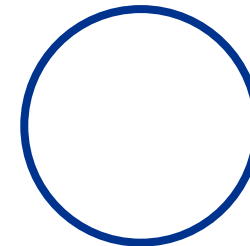
Easy to work with and understand?

Have new systems been implemented through Audit Period?



Process

Specific Process documentation (Return preparation, PCard, Expense Report Reconciliation etc.)



Documentation

Invoices, agreements etc. easy to locate and available.

Audit Considerations

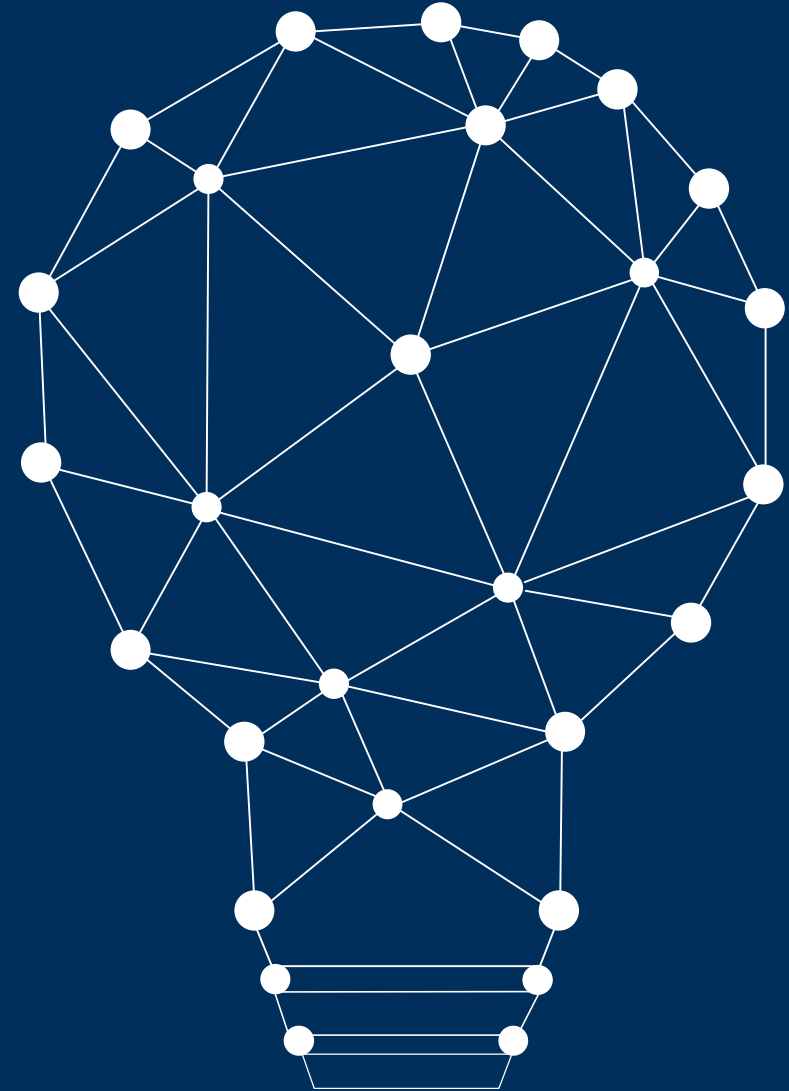


Things to Consider

- ✓ Documented Policies & Processes
- ✓ Internal Controls
- ✓ Supporting Documentation
- ✓ Relationships with third parties
- ✓ System/Subsystem changes implemented during audit period
- ✓ Who is authorized with the CRA



Municipal GST/HST Audit Issues



Audit Process Issues

1

- Data retrieval

2

- CRA lag times

3

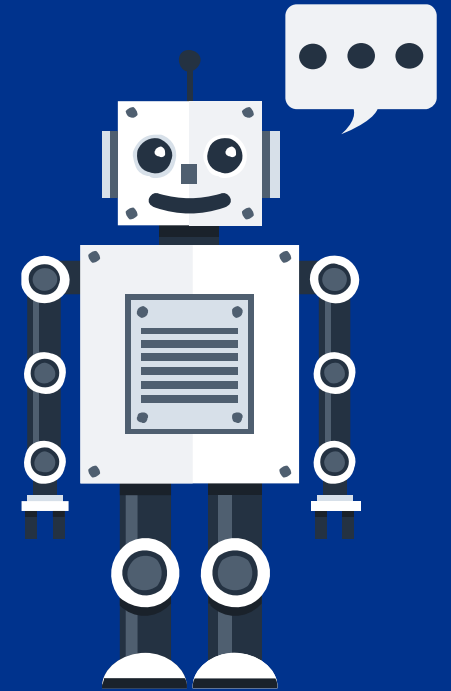
- No system documentation

4

- Too many points of contact

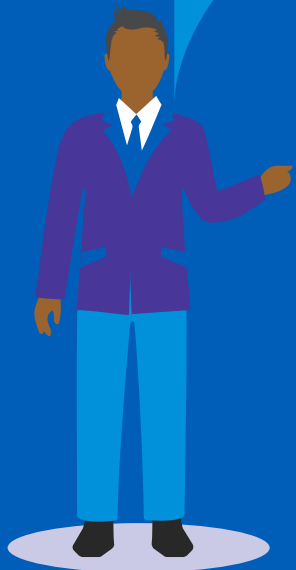
5

- Statistical sampling & Extrapolation



Audit Technical issues

ITC/Rebate
Documentation



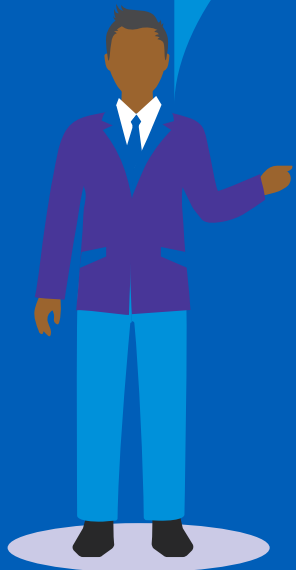
Areas of Confusion

- Strict rules on the information that must be present to claim a rebate and or ITC
- Document retention policies

Summary of Documentation Requirements	Total Amount Paid or Payable (Total Sale)		
	Below \$30	Between \$30 and \$149.99	\$150 or More
Supplier's name, or intermediary's name in respect of the supply, or name under which the supplier does business	✓	✓	✓
Date of invoice (if no invoice, other rules apply)	✓	✓	✓
Total amount paid or payable	✓	✓	✓
Amount of applicable GST/HST – Many rules apply, including <ul style="list-style-type: none"> • Amount of GST/HST for each supply or for all supplies • Where the supply is on a “tax included” basis, a statement of this status and the tax rate of each taxable supply that is not a zero-rated supply • Where multiple supplies with different tax status, an indication of the tax status of each taxable supply that is not a zero-rated supply 		✓	✓
Supplier's GST/HST registration number		✓	✓
Terms of payment			✓
Recipient's name, or name under which the recipient does business, name of recipient's duly authorized agent or representative			✓
Description of each supply sufficient to identify each supply			✓

Audit Technical issues

GST/HST on
Revenue

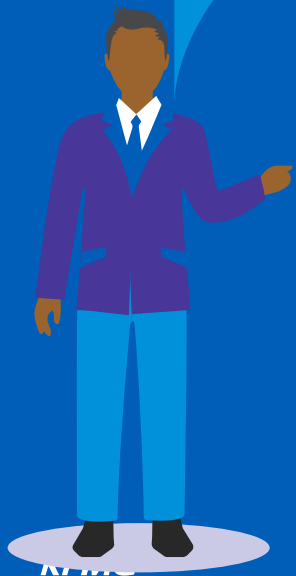


Areas of Confusion

- Requests for Information
- Property disposals (by municipality and via auction)
- Permits, inspections and other services related to same
- Damage payments
- 911 access fees
- Environmental levies, and many others.

Audit Technical issues

GST/HST Self Assessment

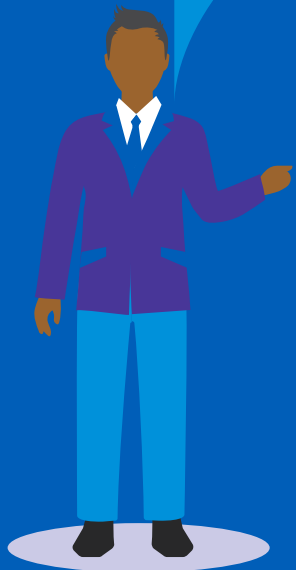


Areas of confusion

- Required to self assess GST/HST on imports of services and intangibles
- E.g. Software, Nonresident consultants
- Required to self assess on acquisitions of taxable real property (where municipality is a GST/HST registrant)

Audit Technical issues

P3 Arrangements



Areas of confusion

GST/HST Implications of P3 Arrangements

- Nature of Supply
 - Identify all of the different supplies
 - Single or Multiple Supplies
 - Tax Status of supply
- Forms of consideration
 - Flow of consideration
 - Affects timing of GST/HST liability
- Recovery of Tax

Example

Municipality provides land to Private Sector (PS) for purposes of constructing infrastructure

Ownership of the infrastructure is transferred to the municipality upon completion/installation.

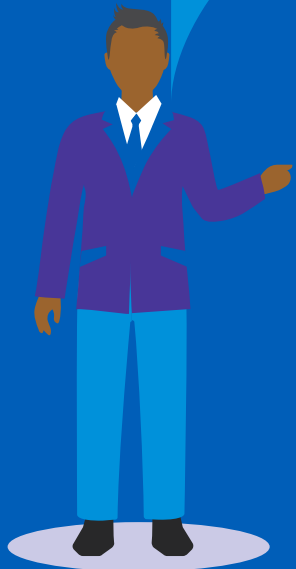
Supply of land and infrastructure back to PS under a lease/license. Supplies of real property by lease/license is taxable when supplied by a municipality, but may be exempt if another public service body (e.g. NPO community league) is making the supply.

Private sector participant has made supplies of improvements to the real property. Private sector claims ITC's on construction, and accounts for GST/HST on supply back to the municipality.



Audit Technical issues

Grants vs Consideration for a supply



Areas of confusion

To determine if a payment is consideration for a supply:

- Establish whether the recipient has, or will, make a supply as a result of having received the payment
- If this is the case, determine whether there is a direct link between the transfer payment and the supply
- Transfer payments made in the public interest or for charitable purposes will not be regarded as consideration for a supply

Example

Monies provided by a municipality to a NPO to expand facility

If municipality owns facility, funds may be consideration for a supply of construction services/management.

If NPO's owns facility funds may be considered a "public purpose" grant.

NPO may not be entitled to a full recovery of GST/HST on costs related to the expansion. Planning Alternatives?

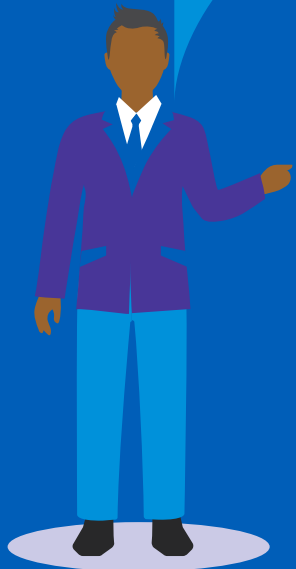
Cost-sharing on construction of a Rec Centre with a School Board

If municipality owns Rec Centre funds may represent consideration for the right to use the facility when completed and GST/HST charged.



Audit Technical issues

ITC Allocation



Areas of confusion

Continues to be an issue:

Input Tax Credits – General Rules

Capital Expenses

- Primary use test

Operating Expenses

- <10% in commercial activities = Rebate only
- $\geq 10\%$ - <90% in commercial activities = ITC = to % of use
- $\geq 90\%$ in commercial activities = 100% ITC

Did we address all of the objectives of this session?

- 1** Provide an overview of GST/HST
- 2** Highlighted new rules and recent rulings
- 3** Discussed CRA audit insights
- 4** Described Potential Audit Process and Technical issues



Key Takeaways....

Be Prepared

- Document internal controls, policies, procedures
- Document retention policies
- Document tax set up in financial and subsystems

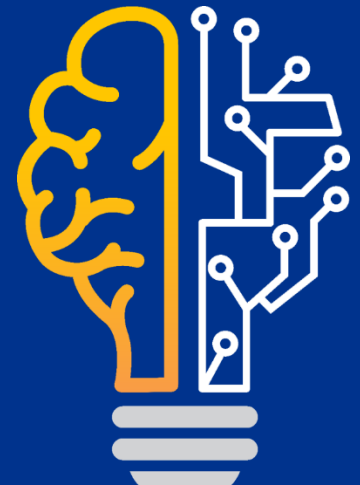
Be Aware of Entitlements

- CRA required to audit to net tax
- Under certain circumstances unclaimed credits can be claimed in the future

Stay Current

- Ensure staff is aware of potential GST/HST issues.

Questions...



Thank you...

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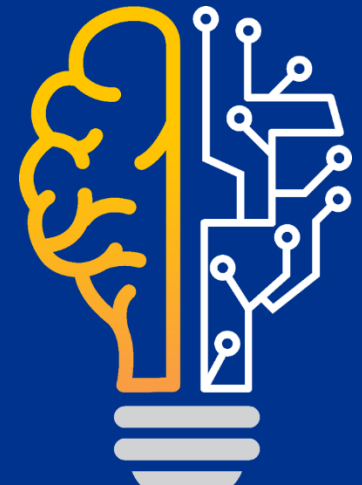
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