

TAX GUIDE

COMPLETE GST/HST





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TOPICS

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COMPREHENSIVE GUIDE TO GST/HST COLLECTION FOR SELF-EMPLOYED INDIVIDUALS IN CANADA

If you are a self-employed person, you would know that it comes with a lot of freedom as you are your own boss and can set the pace of your work. However, as a self-employed person it is so important to understand the deadlines and other intricacies of filing taxes. It is a completely different process of filing taxes as a self-employed individual as compared to being an employee.

In this chapter, we will explore the Canada Revenue Agency's (CRA) guidelines pertaining to the collection of GST/HST for self-employed individuals. To begin, let's delve into an understanding of what GST and HST signify in Canada and their significance. When your sales surpass the \$30,000 threshold within a specific timeframe, and you no longer qualify as a "small supplier," it becomes obligatory for most businesses to obtain a GST/HST business number. To ensure compliance, it is vital to submit your GST/HST return based on your chosen reporting frequency, which can be monthly, quarterly, or annually. To avoid penalties and interest, it's essential to keep track of your payment deadlines and mark them on your calendar.



What is GST/ HST in terms of Canadian taxes?

There are two main types of taxes in Canada – GST and HST. Read on to know more in detail about each of these.

- **Goods and Service Tax (GST)**

The Goods and Services Tax (GST) in Canada is a federal consumption tax levied on the supply of most goods and services within the country. It was introduced in 1991 to replace the previous federal sales tax system. Presently, the GST is fixed at 5% of the cost or value of goods and services. Businesses typically collect this tax at the time of sale and then forward it to the Canada Revenue Agency (CRA). Certain goods and services are exempt from the GST, while others are subject to a zero-rated tax rate, signifying that although the tax is applied, it is set at a rate of 0%. The differentiation in this context has consequences for how businesses can utilize input tax credits (ITCs), a mechanism enabling them to recoup the Goods and Services Tax (GST) paid on their purchases and expenditures.



In addition to the Goods and Services Tax (GST), several Canadian provinces have implemented what is known as the Harmonized Sales Tax (HST). The HST combines the GST with the provincial sales tax into a single, unified tax system. The provinces where the HST is currently in effect include Nova Scotia, New Brunswick, Newfoundland and Labrador, Prince Edward Island, and Ontario. In these provinces, the HST rate is higher than the GST rate on its own because it incorporates a provincial component.

Broadly speaking, the GST serves as a significant source of revenue for the Canadian government, playing a substantial role in funding various public services and programs.

- **Harmonized Sales Tax (HST)**

The Harmonized Sales Tax (HST) in Canada is a value-added tax system that combines the federal Goods and Services Tax (GST) with a portion of the provincial sales tax (PST) in certain provinces. It is designed to streamline the taxation of goods and services and create a more harmonized approach to taxation. The HST system simplifies the taxation process by consolidating these two taxes into a single tax rate. This streamlined approach is aimed at reducing administrative complexities for businesses and promoting economic efficiency.

The participating provinces that have adopted the HST include Nova Scotia, New Brunswick, Newfoundland and Labrador, Prince Edward Island, and Ontario. In these provinces, the HST combines the 5% federal GST rate with the applicable provincial sales tax rate, resulting in a higher overall tax rate. The exact rate varies depending on the province. The HST is typically applied at a single, combined tax rate. This rate includes both the federal portion (GST) and the provincial portion. The specific rate varies by province.

The HST applies to a wide range of goods and services in the participating provinces, similar to how the GST operates. Businesses that are enrolled in the HST system gather this tax during transactions and then forward it to the Canada Revenue Agency (CRA). The HST system also allows businesses to claim input tax credits, which help offset the taxes paid on their inputs.

Overall, the HST is designed to create a more harmonized and unified approach to taxation, simplifying the process for both businesses and consumers in the provinces where it is implemented.

Does my small business need to collect GST/ HST?

It's important to recognize that not all products and services in Canada are liable to the GST/HST. Furthermore, it's essential to be aware that not all businesses are obligated to levy and collect these taxes from their customers. Two primary factors dictate this: the nature of the transaction and the volume of sales your business conducts.

Difference between GST and HST in Canada

The Goods and Services Tax (GST) in Canada is a tax applied to most goods and services provided within the country. It also extends to various real estate transactions, including land, buildings, and property interests, as well as intangible personal property like trademarks, patent usage rights, and digitally downloadable products acquired individually from the internet.

Whether your small business needs to collect Goods and Services Tax (GST) or Harmonized Sales Tax (HST) in Canada depends on several factors, including your business's annual revenue, the province or territory in which you operate, and the types of goods or services you provide. Here are some key considerations –



- **Small Supplier Threshold**

In Canada, businesses that meet the definition of a "small supplier" are not required to collect GST/HST until their annual worldwide taxable revenues exceed a certain threshold. As of my last knowledge update in September 2021, the threshold is \$30,000. If your business's total revenue is below this threshold, you are not obligated to register for or collect GST/HST.

- **Types of Goods and Services**

Some goods and services are exempt from GST/HST, while others are subject to it. The specific rules vary by province and territory. It's essential to determine whether your products or services fall into a taxable category.

- **Voluntary Registration**

Even if your business qualifies as a small supplier, you can choose to voluntarily register for GST/HST. There may be advantages to voluntary registration, such as the ability to claim input tax credits (ITCs) for GST/HST paid on your business expenses. However, this also means you must collect and remit GST/HST on your sales.

- **Provincial Variations**

Some provinces have their own provincial sales taxes (PST) or harmonized taxes (HST). The rules and thresholds for these taxes can differ from the federal GST/HST rules. Be sure to consider the specific requirements for your province or territory.

- **E-commerce and Digital Services**

If your business sells digital products or provides e-commerce services, the rules for GST/HST collection can be different, and there may be special provisions that apply.

- **Cross-Border Sales**

If your business conducts sales across provincial or international borders, additional tax considerations may come into play.

To determine whether your small business needs to collect GST/HST in Canada and to ensure compliance with tax regulations, it's advisable to consult with a tax professional or contact the Canada Revenue Agency (CRA).

Difference between HST and GST in Canada

In Canada, both the Goods and Services Tax (GST) and the Harmonized Sales Tax (HST) are consumption taxes, but they differ in terms of their structure and application. Here are the key differences between GST and HST.

- **Goods and Services Tax (GST) –**

- **Federal Tax:** The GST is a federal tax imposed by the Government of Canada. It is applicable across the entire country.
- **Tax Rate:** As of my last knowledge update in September 2021, the federal GST rate is 5%. This is the standard rate applied to most goods and services, although some items may be exempt or subject to a reduced rate.
- **Provincial Taxes:** In some provinces, there is an additional provincial sales tax (PST) that is separate from the GST. These provinces include British Columbia, Manitoba, and Saskatchewan. In these provinces, businesses collect both GST and PST.

- **Harmonized Sales Tax (HST) –**

- **Combined Tax:** The HST combines the federal GST with a provincial sales tax into a single, harmonized tax. It is collected by the federal government but includes both federal and provincial components.
- **Participating Provinces:** Provinces that have adopted the HST include Nova Scotia, New Brunswick, Newfoundland and Labrador, Prince Edward Island, and Ontario. In these provinces, there is no separate PST, and the HST rate covers both federal and provincial portions.
- **Tax Rate:** The HST rate varies by province but is typically higher than the federal GST rate. The rate includes the federal portion (5% as of my last update) and the provincial portion, which varies by province.
- **Input Tax Credits (ITCs):** Businesses registered for the HST can claim input tax credits (ITCs) to recover the HST they have paid on their business expenses. This helps reduce the overall tax burden on businesses.
- **Filing and Reporting:** Businesses in HST provinces collect and remit the HST on behalf of the government. They must also file HST returns to report their sales and expenses.
- **Exemptions and Special Rules:** The HST may have different rules and exemptions compared to the GST in non-HST provinces. Businesses should be aware of the specific regulations in their province.

What if I make less than \$30,000 – do I still have to pay GST/ HST?

In the case of most businesses, the obligation to register for the GST/HST arises when you cease to meet the criteria of being a "small supplier." This transition occurs when your total sales (before subtracting expenses) surpass either of the following thresholds-

- \$30,000 within a single calendar quarter (spanning three consecutive months), or
- \$30,000 within the preceding four consecutive calendar quarters (not necessarily within a single calendar year).

As an example, if your business accumulated sales totaling more than \$30,000 between July 1 of one year and June 30 of the following year, you would surpass the small supplier threshold. This holds true even if your sales for each individual calendar year within that period were below \$30,000.

Meeting either of these criteria means that you are obligated to promptly register for the GST/HST and commence the process of charging, collecting, and remitting the applicable tax.





Who should register for GST/ HST?

The \$30,000 threshold mentioned earlier serves as a standard benchmark that the majority of businesses follow to assess their requirement for obtaining a GST/HST number. However, it's important to recognize that specific considerations apply to various entities, such as charities and public organizations, public service bodies, and non-residents. For detailed information regarding these categories, it's advisable to refer to the Canada Revenue Agency (CRA) website.

In addition to this, there is a need to highlight a specific scenario – if you operate as a self-employed taxi driver or engage in commercial ride-sharing services, the requirement to register for a GST/HST number remains in effect, even if your business qualifies as a small supplier based on the sales threshold. This distinct regulation is pertinent to ensure that tax obligations are met consistently across various sectors.

What is voluntary registration for GST/ HST in Canada?

Voluntary registration for GST/HST in Canada refers to the process by which a business or individual chooses to register for and collect the Goods and Services Tax (GST) and Harmonized Sales Tax (HST) even if they do not meet the mandatory registration requirements. In other words, voluntary registration is optional and is not compelled by exceeding the small supplier threshold or any other statutory criteria. Here are some key points about voluntary registration for GST/HST in Canada –

Reasons for Voluntary Registration: Businesses and individuals may opt for voluntary registration for various reasons, including:

- **Claiming Input Tax Credits (ITCs):** Registered businesses can claim ITCs to recover the GST/HST they have paid on their business expenses. This can reduce the overall tax burden.
- **Perceived Professionalism:** Some businesses choose to register voluntarily because it may convey a sense of professionalism and credibility to customers.
- **Business Growth:** If a business anticipates rapid growth and reaching the small supplier threshold in the near future, voluntary registration can simplify the transition.
- **Collecting and Remitting Tax:** Once registered voluntarily, the business is required to collect GST/HST on taxable sales and remit the collected taxes to the government. This includes charging customers the applicable tax rate on their purchases.
- **Filing and Reporting:** Registered businesses must file regular GST/HST returns, typically on a monthly, quarterly, or annual basis, depending on their circumstances. These returns report sales, expenses, and tax collected.
- **Compliance Requirements:** Voluntarily registered businesses are subject to the same compliance and reporting requirements as mandatory registrants. This includes keeping accurate records and following GST/HST rules.
- **Cancellation of Registration:** If a business no longer wishes to be registered for GST/HST, they can apply to cancel their registration. However, this process also involves specific steps and obligations.

It's important to carefully consider the decision to voluntarily register for GST/HST, as it entails collecting and remitting taxes, maintaining records, and adhering to tax regulations. Businesses should weigh the potential benefits, such as ITC claims, against the administrative responsibilities associated with registration.

Steps for collecting and filing GST/ HST return

Here's a step-by-step guide on collecting and filing GST/ HST return in Canada as a self-employed individual.

- **Apply for GST/ HST number**

Once you've determined the necessity or choice to register for the GST/HST, the subsequent step is to initiate the registration process with the Canada Revenue Agency (CRA). This process is uncomplicated and can be entirely executed online via the Business Registration Online (BRO) platform.

Upon a successful registration, you will be granted the status of a GST/HST registrant and be provided with a nine-digit business number. If you have any inquiries regarding your GST/HST number, you can contact the CRA by phone at 1-800-959-5525.

- **Collect GST/ HST**

Here's an effective approach to managing the collection of GST/HST from your customers –

- **Determine the applicable GST/HST rate**

Tax calculation depends on your business's location, often referred to as your place of supply, and the type of transaction, as previously outlined. You can consult the CRA's table of provincial GST/HST rates for guidance.

- **Understand the content to include in your receipts and invoices**

Ensure that you clearly communicate to your clients whether the GST/HST is integrated into the prices or will be invoiced separately. This information should be prominently displayed on your invoice, receipt, contract, or a noticeable sign for customers to readily identify. Additionally, make certain to incorporate the applicable GST/HST rate, the date, and your registration number on the invoice, receipt, or contract that you furnish to your customers.

- **Arrange and manage your bookkeeping records**

Upon commencing the collection of GST/HST, the responsibility of setting aside the funds falls upon you. Upon completing your GST/HST return, the exact amount owed will be confirmed, and subsequently, you can transmit the funds to the CRA. Dedicating time to maintaining thorough records will yield advantages when the moment arrives to finalize your GST/HST return.

Your record-keeping should allow you to determine the overall GST/HST you've received from your customers, the GST/HST you've disbursed for your business costs, and the taxable amount that can be subtracted from your net tax liability. Here's a useful suggestion: It is advisable to maintain your records for a duration of six years, as the Canada Revenue Agency (CRA) might require them for verification purposes.

- **File your GST/ HST return**

Now that you have collected GST/ HST from your customers, it is time to file your return and report it to the CRA.

Follow [these instructions](#) for completing your GST/ HST return as set by the CRA. Be sure to confirm whether online filing is obligatory in your situation. You may also have the option to submit your return in person at a participating financial institution or by sending your GST/HST paper return via mail.

- **Pay the taxes you collected**

The taxes you've gathered indicate that you have the responsibility of tax collection on behalf of the government. These funds are required to be sent to the Canada Revenue Agency (CRA) alongside your GST/HST return.

Typically, the sum owed is expected to be remitted concurrently with the submission of your GST/HST return. The specific timing of this remittance depends on the frequency of your business operations, which may necessitate monthly, quarterly, or annual returns. It's crucial to ensure timely filing in line with the set deadline to avoid incurring penalties and interest charges.





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