***Canadian Tax Principles, 2022-2023* (Byrd/Chen)**

**Chapter 21 GST/HST**

21.1 Online Exercises

1) Briefly describe the advantages, from the point of view of a business, of an HST system as compared to a combined GST/PST system.

Answer: The main advantages can be described as follows:

• An HST system is less complex. With an HST system, the staff of the business only has to understand and deal with one set of rules. In contrast, under a GST/PST system, two separate sets of rules must be dealt with.

• An HST system has lower compliance costs. GST/PST systems require the filing of two separate tax returns, as opposed to the one return that is required with an HST system.

• With an HST system, business organizations receive ITCs for all of the taxes paid on their purchases. They receive ITCs for only the GST portion under a GST/PST system.

Type: ES

Topic: GST/HST - basic rules & general concepts

2) Describe two factors that have been influential in the increased use of transaction based taxes in various countries around the world.

Answer: The required two factors can be selected from the following:

• **Simplicity -** Transaction taxes are easy to administer and collect. No forms are required from individuals paying the tax and, if the individual wishes to purchase a particular good or service, it is difficult to evade payment.

• **Incentives to Work -** An often cited disadvantage of income taxes is that they can discourage individual initiative to work and invest. Transaction taxes do not have this characteristic.

• **Consistency -** Transaction taxes avoid the fluctuating income and family unit problems that are associated with progressive income tax systems.

• **Keeping the Tax Revenues in Canada -** While some types of income can be moved out of Canada, resulting in the related taxes being paid in a different jurisdiction, taxes on Canadian transactions remain in Canada.

Type: ES

Topic: GST/HST - basic rules & general concepts

3) What is the basic problem with a multi-stage tax that is assessed on turnover at the various stages of the production/sale cycle?

Answer: The problem is that there is pyramiding of taxes. When the tax is applied at each level using normal markups, there is a tax on taxes that have been previously paid. This can result in a very high overall rate being charged in the process of getting the product to the ultimate consumer.

Type: ES

Topic: GST/HST - basic rules & general concepts

4) Explain the difference between an accounts-based value added tax (VAT) and invoice-credit VAT.

Answer: An accounts-based VAT system applies a specified rate to the value added at each stage in the production/distribution process. Such systems require an accounting based measurement of the amount of value added.

An invoice-credit VAT applies a specified rate to the revenue generated at each stage in the production/distribution process. The remittance of this amount is offset by claiming ITCs for the tax that has been paid on all current purchases and on the full amount of capital expenditures used in producing these revenues. Its application involves no matching of costs and revenues, and no allocation of costs to periods other than the period in which property was purchased.

Type: ES

Topic: GST/HST - basic rules & general concepts

5) Describe the GST/HST consequences related to the sale of:

• fully taxable goods and services;

• zero-rated goods and services; and

• exempt goods and services.

Answer: The GST/HST consequences are as follows:

**Fully Taxable Goods and Services -** The vendor would charge GST/HST on all such sales. The vendor would be eligible for ITCs for GST/HST paid on the costs associated with such sales.

**Zero-Rated Goods and Services -** The vendor would not charge GST/HST on such sales. The vendor would be eligible for ITCs for GST/HST paid on the costs associated with such sales.

**Exempt Goods and Services -** The vendor would not charge GST/HST on such sales. The vendor would not be eligible for ITCs for GST/HST paid on the costs associated with such sales.

Type: ES

Topic: GST/HST - basic rules & general concepts

6) Describe the "place of supply" rules as they apply to (1) tangible goods other than real property, and (2) services.

Answer: With respect to tangible goods, GST/HST will be collected using the rules of the province where the goods are delivered.

With respect to services, GST/HST will be collected using the rules of the province where the recipient of the services is located.

Type: ES

Topic: GST/HST - basic rules & general concepts

7) John is a resident of Ontario where a 13% HST rate is in effect. He is acquiring a new car from a car dealer and is being given a trade-in allowance for his old vehicle. Explain how the HST will apply to John's purchase.

Answer: HST will only be charged on the net cost of the new car. The 13% rate will be applied to the cost of the new car, less the trade-in allowance provided.

Type: ES

Topic: GST/HST - calculations (regular method)

8) Give two examples of entities that would have to file a GST or HST return, but do not have to file an income tax return.

Answer: Partnerships and non-profit organizations are most commonly mentioned in the text.

Type: ES

Topic: GST/HST - basic rules & general concepts

9) Explain how the GST/HST registration requirements apply to non-residents.

Answer: In general, non-residents are not required to register for GST/HST. However, if a non-resident is carrying on business in Canada, registration would be required. In addition, a non-resident could voluntarily register.

Type: ES

Topic: GST/HST - registration

10) Describe the "last four calendar quarters" test that is used to determine eligibility for the small suppliers exemption.

Answer: Under this test, an entity qualifies as a small supplier in the current quarter and the first month of the following quarter if, during the calendar four quarters preceding the current quarter, the entity together with associated persons did not have cumulative taxable supplies exceeding $30,000.

Type: ES

Topic: GST/HST - small supplier exemption

11) An individual with taxable sales of less than $30,000 in the previous calendar year has asked your advice as to whether the individual should register for GST/HST purposes. What questions should you ask about the business in order to give the appropriate advice?

Answer: The basic questions that should be asked are as follows:

• Do you have large amounts of fully taxable costs that would generate ITCs?

• Do you expect to exceed $30,000 in annual taxable sales in the near future?

• Would adding GST/HST to your sale price reduce your ability to compete?

Type: ES

Topic: GST/HST - registration

12) How are ITCs calculated when registrants make capital expenditures that are (1) real property and (2) furniture and fixtures?

Answer: For capital expenditures on real property, the GST/HST paid is eligible for an ITC at the time of purchase. However, if the property is not used exclusively for commercial activity, only a portion of the GST/HST is eligible for the credit. The portion is based on the extent to which the property is used for commercial activity. This is subject to a minimum rule (there is no ITC if the property is used 10% or less for commercial activity) and a maximum rule (100% of the GST/HST paid is eligible for the credit if the property is used 90% or more for commercial activity).

For most capital expenditures other than real property (personal capital property), the GST/HST paid is eligible for an ITC at the time of purchase. However, if the property is used 50% or less for commercial activity, no credit is available. Alternatively, if the property is used more than 50% for commercial activity, 100% of the GST/HST paid is eligible for an ITC.

Type: ES

Topic: GST/HST - input tax credits (ITC)

13) How are ITCs calculated on the current expenditures of a business?

Answer: ITCs on current expenditures are available at the time the expenditure is made, without regard to matching with related revenues. If all, or substantially all (generally understood to mean 90% or more), of a current expenditure is related to commercial activity, then all of the GST/HST that was paid can be claimed as an ITC. In contrast, if 10% or less of an expenditure is related to commercial activity, no ITC can be claimed. If the percentage of the current expenditure used for commercial activity is between 10% and 90%, the ITC available is calculated by multiplying the total GST/HST paid by the percentage of commercial activity usage.

Type: ES

Topic: GST/HST - input tax credits (ITC)

14) Provide two examples of expenditures where available ITCs are restricted, even when the expenditures involved commercial activity.

Answer: The required two examples can be selected from the following:

**Passenger Vehicles -** No ITCs are available for GST/HST paid on the portion of the cost or lease payment of a passenger vehicle that is in excess of the prescribed limits. The prescribed limits for non-zero emission passenger vehicles purchased on or after January 1, 2022 are $34,000 (Class 10.1) and $59,000 for zero-emission vehicles (Class 56).

**Club Memberships -** No ITC is allowed for GST/HST paid on membership fees or dues in any club whose main purpose is to provide dining, recreational, or sporting facilities.

**Provision of Recreational Facilities -** No ITCs are available for the GST/HST costs of providing certain types of recreational facilities to employees, owners, or related persons.

**Business Meals & Entertainment -** The recovery of GST/HST on meals and entertainment expenses is limited to 50% of the amounts paid. This reflects the portion of the amount of such expenditures that are deductible for income tax purposes.

**Personal or Living Expenses -** ITCs cannot be claimed on costs associated with the personal or living expenses of any employee, owner, or related person.

**Reasonableness -** Both the nature and value of a purchase must be reasonable in relation to the commercial activities of the registrant before an ITC can be claimed.

Type: ES

Topic: GST/HST - input tax credits (ITC)

15) Certain qualifying registrants can use the Quick Method of accounting for GST/HST. What are the advantages of using this method?

Answer: The major advantages of using the Quick Method can be described as follows:

• As the remittance rate is charged on GST/HST inclusive sales, there is no need for separate tracking of GST/HST collections.

• There is no requirement to separately track purchases, other than those for capital expenditures, in order to determine the amount of ITCs.

• While this is not always the case, the Quick Method may reduce the amount of GST/HST that would be paid by the registrant if the registrant were to use the regular method for determining his GST/HST liability. Note, however, the use of this method may also increase the amount to be paid or may reduce the amount of a refund.

Type: ES

Topic: GST/HST - quick method

16) Briefly describe the simplified method of accounting for ITCs.

Answer: Under the simplified method of accounting for ITCs, detailed records are not kept of the GST/HST that is paid on all purchases other than real property. The total GST/HST and non-refundable PST inclusive amount of fully taxable costs incurred, including eligible costs incurred for capital property other than real property, is multiplied by a factor to identify the ITC amount.

The factor used will depend on the GST/HST rate in the province or territory (e.g., 5/105 in Alberta and the three territories, 15/115 in New Brunswick; 13/113 in Ontario). As with the regular method of calculation, separate attention is given to the GST/HST paid on real property. This means that this amount will have to be prorated based on the extent to which it is used in commercial activity.

Type: ES

Topic: GST/HST - simplified input tax credit (ITC) method

17) Under what circumstances would an registrant choose to file a GST or HST return more frequently than required by the ETA?

Answer: This would happen if the entity had ITCs in excess of GST/HST collections on a regular, ongoing basis. This type of situation would entitle the registrant to regular payments from the government. An example of this would be a business selling goods for export.

Type: ES

Topic: GST/HST - basic rules & general concepts

18) Indicate two situations where the fact that two corporations are associated would affect the GST/HST.

Answer: The required two could be selected from the following:

• Whether they qualify for the small supplier's exemption,

• Whether they are eligible for the Quick Method of accounting,

• Whether they are eligible for the simplified method of calculating ITCs,

• Determining the required filing frequency of GST/HST returns (i.e., monthly, quarterly or annually).

Type: ES

Topic: GST/HST - associated persons

19) What is the objective of the employee/partner GST/HST rebate?

Answer: Employees and individual partners are not GST/HST registrants and, in the absence of a special provision, would not be eligible to claim ITCs for their employment or partner business related expenditures. The Employee and Partner GST/HST Rebate allows employees and partners to recover the GST/HST paid on their employment or partnership related expenditures in a way that is similar to the ITCs that they would have received if they were GST/HST registrants.

Type: ES

Topic: GST/HST - employee/partner rebate including CCA

20) Briefly describe the GST/HST rebate that is available on purchases of new residential housing in those provinces and territories that do not participate in the HST program.

Answer: For homes that cost $350,000 or less, the rebate is equal to 36% of the GST that is paid on the purchase. This provides a maximum rebate of $6,300 [(36%)(5%)($350,000)]. For homes that cost more than $450,000, no rebate is available. For homes costing between $350,000 and $450,000, the total rebate is reduced using the following formula:

**[A][($450,000 - B) ÷ $100,000]**

Where:

**A** = The lesser of 36% of the GST paid and $6,300; and

**B** = The greater of $350,000 and the cost of the home.

Type: ES

Topic: GST/HST - residential property & new housing rebate

21) The sale of a business structured as a sale of business properties results in the making of a taxable supply for GST/HST purposes. However, there is an election that allows the vendor and purchaser to treat the supply as if it were zero-rated. What conditions are required to use this election?

Answer: The major condition is that 90% or more of the business properties needed to carry on the business must be sold. In addition, the election is available if both the purchaser and vendor are GST/HST registrants, if both the purchaser and vendor are non-registrants, or if the purchaser is a registrant and the vendor is a non-registrant. It cannot be used if the vendor is a registrant and the purchaser is a non-registrant.

Type: ES

Topic: GST/HST - rollover on the sale of a business as a sale of assets

22) In general, transaction taxes are easy to administer and collect.

Answer: TRUE

Type: TF

Topic: GST/HST - basic rules & general concepts

23) One reason for using a single stage transaction tax as opposed to a multi-stage transaction tax is that it allows the government to accrue revenues at a faster pace.

Answer: FALSE

Explanation: A multi-stage tax allows for a quicker accrual of revenues.

Type: TF

Topic: GST/HST - basic rules & general concepts

24) Those provinces that participate in the Harmonized Sales Tax program do not have a provincial sales tax.

Answer: TRUE

Type: TF

Topic: GST/HST - basic rules & general concepts

25) An advantage of transaction taxes is they keep tax revenues in the country in which they are assessed.

Answer: TRUE

Type: TF

Topic: GST/HST - basic rules & general concepts

26) Providers of zero-rated goods are not allowed to claim ITCs.

Answer: FALSE

Explanation: While they do not charge GST/HST on sales, they are still eligible to claim ITCs.

Type: TF

Topic: GST/HST - input tax credits (ITC)

27) Providers of health care services and providers of financial services to Canadian residents do not charge GST on their sales or services.

Answer: TRUE

Type: TF

Topic: GST/HST - basic rules & general concepts

28) Zero-rated supplies are not considered to be taxable supplies.

Answer: FALSE

Explanation: Zero-rated supplies are taxed at a zero rate, thereby allowing the supplier to claim ITCs.

Type: TF

Topic: GST/HST - basic rules & general concepts

29) A new car is purchased with a credit against the price for a trade-in vehicle. GST is charged on the full purchase price, before the credit for the trade-in.

Answer: FALSE

Explanation: GST is charged on the net amount of the purchase price, less the trade-in amount.

Type: TF

Topic: GST/HST - calculations (regular method)

30) If a non-registrant has taxable supplies in excess of $30,000 in a calendar quarter, The individual becomes a deemed registrant as of the first sale in that quarter that pushes the total over $30,000.

Answer: TRUE

Type: TF

Topic: GST/HST - registration

31) If a newly acquired capital real property is used more than 50% for the provision of taxable supplies, the acquirer can claim 100% of the GST/HST paid as an ITC.

Answer: FALSE

Explanation: ITCs on real property are based on a pro rata amount determined by the percentage of usage for the production of taxable supplies.

Type: TF

Topic: GST/HST - input tax credits (ITC)

32) If a newly acquired capital personal property is used more than 50% for the provision of taxable supplies, the registrant can claim 100% of the GST/HST paid as an ITC.

Answer: TRUE

Type: TF

Topic: GST/HST - input tax credits (ITC)

33) When the quick method is used, ITCs on capital expenditures are tracked and dealt with in the same manner as when the regular method is used.

Answer: TRUE

Type: TF

Topic: GST/HST - quick method

34) Employees in a province that does not participate in the HST are entitled to a GST rebate equal to 5% of the expenses on which GST was charged that they claimed for income tax purposes.

Answer: FALSE

Explanation: The GST rebate is equal to 5/105 of the deductible expenses.

Type: TF

Topic: GST/HST - employee/partner rebate including CCA

35) The GST/HST rebate on the purchase of a new home with a purchase price less than $350,000, is equal to 36% of the GST/HST paid.

Answer: TRUE

Type: TF

Topic: GST/HST - residential property & new housing rebate

36) Which of the following is **NOT** correct?

A) All persons engaged in a business must register with the CRA for GST/HST purposes.

B) In a province or territory, there can be a provincial or territorial sales tax or the HST, but not both.

C) Long-term residential rents are exempt from GST/HST.

D) Manitoba and Saskatchewan charge GST at the same rate.

Answer: A

Explanation: A) All persons engaged in a business must register with the CRA for GST/HST purposes.

Type: MC

Topic: GST/HST - basic rules & general concepts

37) Which of the following is **not** a transaction tax?

A) The federal GST that is assessed in Alberta.

B) The provincial sales tax that is assessed in Manitoba.

C) The tax charged for spending a day in Banff National Park.

D) The toll assessed for driving on Highway 407 in Toronto.

Answer: C

Explanation: C) The tax charged for spending a day in Banff National Park. This charge represents a fee rather than a tax

Type: MC

Topic: GST/HST - transaction tax concepts

38) Despite several advantages of transaction taxes, such as their simplicity, they are not the only source of revenue for the federal government. Why are income taxes still used as a significant source of revenue for the government?

A) Income taxes can be applied with greater consistency than transaction taxes.

B) Income taxes encourage individual initiative to work and invest, while transaction taxes discourage these activities.

C) Income taxes are less regressive than transaction taxes.

D) Income taxes result in lower income individuals paying a higher proportion of their income in taxes.

Answer: C

Explanation: C) Income taxes are less regressive than transaction taxes.

Type: MC

Topic: GST/HST - transaction tax concepts

39) How does the Canadian government compensate for the regressive nature of the GST/HST?

A) By allowing an exemption from the tax for lower income individuals.

B) By ensuring that items purchased more frequently by lower income individuals are not subject to the tax.

C) By providing lower income individuals with GST/HST refunds.

D) By providing a refundable GST/HST tax credit that is available to lower income individuals.

Answer: D

Explanation: D) By providing a refundable GST tax credit that is available to low income individuals.

Type: MC

Topic: GST/HST - basic rules & general concepts

40) The term taxable supply, as it is used in the ETA, would include all of the following except:

A) the sale of a new television by a business carried on as a sole proprietorship.

B) the provision of electrical installation services by an electrician.

C) the sale of a life insurance policy by an insurance agency.

D) a cash free exchange of merchandise between two retail businesses.

Answer: C

Explanation: C) The sale of a life insurance policy by an insurance agency which is an exempt supply.

Type: MC

Topic: GST/HST - liability for GST/HST

41) Which of the following is **NOT** a fully taxable supply?

A) A bus ride from home to school.

B) The purchase of a litre of milk at the grocery store.

C) The purchase of a meal in a restaurant.

D) The completion of an income tax return by an accounting firm.

Answer: B

Explanation: B) The purchase of milk at the grocery store.

Type: MC

Topic: GST/HST - taxable, zero-rated & exempt supplies

42) Which of the following statements related to fully taxable and zero-rated supplies in a participating province is correct?

A) Fully taxable supplies are taxed at the HST rate and zero-rated supplies are taxed at zero percent. Expenditures related to both types of supplies are eligible for ITCs.

B) Fully taxable supplies are taxed at the HST rate and zero-rated supplies are taxed at zero percent. ITCs are available on only expenditures related to fully taxable supplies.

C) Both types of supplies are taxed at the HST rate. ITCs are available on only expenditures related to fully taxable supplies.

D) Fully taxable supplies are taxed at the HST rate and zero-rated supplies are taxed at zero percent. ITCs are available on all expenditures related to fully taxable supplies and on only capital expenditures related to zero-related supplies.

Answer: A

Explanation: A) Fully taxable supplies are taxed at the HST rate and zero-rated supplies are taxed at zero percent. Expenditures related to both types of supplies are eligible for ITCs.

Type: MC

Topic: GST/HST - taxable, zero-rated & exempt supplies

43) Which of the following statements related to exempt and zero-rated supplies is correct?

A) Both zero-rated and exempt supplies are taxable at zero percent. Expenditures related to zero-rated supplies are eligible for ITCs and those related to exempt supplies are not.

B) Zero-rated supplies are taxable at zero percent, while exempt supplies are not taxable. Expenditures related to both zero-rated and exempt supplies are eligible for ITCs.

C) Zero-rated supplies are taxable at zero percent, while exempt supplies are not taxable. Expenditures related to zero-rated supplies are eligible for ITCs and those related to exempt supplies are not.

D) Both zero-rated and exempt supplies are taxable at zero percent. Neither expenditures related to zero-rated supplies nor those related to exempt supplies are eligible for ITCs.

Answer: C

Explanation: C) Zero-rated supplies are taxable at zero percent, while exempt supplies are not taxable. Expenditures related to zero-rated supplies are eligible for ITCs and those related to exempt supplies are not.

Type: MC

Topic: GST/HST - taxable, zero-rated & exempt supplies

44) George Black lives in Manitoba, a non-participating province that has an 7% provincial sales tax. During the current year, he purchases a new Lexus for $82,000. He receives a trade in allowance of $36,000 for his old vehicle. The GST/HST charged on his new vehicle would be equal to:

A) $4,100.

B) $2,300.

C) $5,980.

D) $10,660.

Answer: B

Explanation: A) $4,100 [(5%)($82,000)]

B) $2,300 [(5%)($82,000 - $36,000)

C) $5,980 [(13%)($82,000 - $36,000)]

D) $10,660 [(13%)($82,000)]

Type: MC

Topic: GST/HST - calculations (regular method)

45) In Ontario, the HST rate is 13%, in Alberta there is only GST of 5%. For which of the following transactions will the rate charged be 5%?

A) A writer located in Alberta produces a book for a publisher located in Ontario and receives payment from the Ontario office.

B) An Ontario registrant sells a product to a resident of Alberta who is visiting Ontario.

C) An Alberta registrant ships a product to a recipient in Ontario.

D) An Ontario registrant ships a product to a recipient in Alberta.

Answer: D

Explanation: D) An Ontario registrant ships a product to a recipient in Alberta.

Type: MC

Topic: GST/HST - calculations (regular method)

46) Jasper Appliances is an Ontario HST registrant. Ontario has a 13% HST rate. As part of its Black Friday promotion, the store is advertising that, on that day, products can be purchased with no HST charged. On that day, a stove is sold for $2,800, its list price with no HST added to the amount owed by the customer. How much HST would Jasper Appliances owe the government as a result of this sale?

A) $322.12

B) Nil

C) $364.00

D) $133.33

Answer: A

Explanation: A) $322.12 [(13/113)($2,800)]

B) Nil

C) $364 [(13%)($2,800)]

D) $133.33 [(5/105)($2,800)]

Type: MC

Topic: GST/HST - collection & remittance

47) Marvin's Rooms is a new business which commenced January 1, 2022. Its sales during its first four quarters of operation were as follows:

**Quarter Sales**

1 $13,000

2 18,000

3 24,000

4 27,000

On what date will Marvin's Rooms have to begin collecting GST?

A) The date in the second quarter on which cumulative sales total $30,000.

B) July 1, 2022.

C) August 1, 2022.

D) September 1, 2022.

Answer: C

Explanation: C) August 1, 2022.

Type: MC

Topic: GST/HST - registration

48) Elfassy Art Dealers is a new business which commenced January 1 of the current year. It had four sales on the following dates during its first year of operation:

**Quarter - Date Sales**

1 - February 1 $13,000

2 - May 1 5,000

3 - August 1 35,000

4 - November 1 27,000

On what date will Elfassy Art Dealers have to begin collecting GST/HST?

A) July 1.

B) August 1.

C) September 1.

D) November 1.

Answer: B

Explanation: B) August 1.

Type: MC

Topic: GST/HST - registration

49) John Barker owns a repair shop in Ontario, a province that has a 13% HST rate. He has asked you to calculate the HST payable or refund for the first reporting period. Given the following information, what should the repair shop's HST payable or refund be?

**Amount Before HST**

Sales $150,000

Equipment purchased 96,000

Supplies purchased 83,000

Wages paid 19,000

Rent paid 17,000

A) A refund of $8,450.

B) A payment of $6,500.

C) A refund of $3,770.

D) A refund of $5,980.

Answer: D

Explanation: D) [13%][$150,000 - ($96,000 + $83,000 + $17,000)] = ($5,980)

Type: MC

Topic: GST/HST - calculations (regular method)

50) For vendors of taxable supplies who purchase goods for resale and make capital expenditures to be used in commercial activities, ITCs can be claimed for GST/HST billed or paid on:

A) all capital expenditures made during the period and goods sold during the period.

B) a portion of capital expenditures based on their estimated service life and goods purchased for resale during the period.

C) a portion of capital expenditures based on their estimated service life and goods sold during the period.

D) all capital expenditures made during the period and goods purchased for resale during the period.

E) goods purchased for resale during the period, but not capital expenditures.

Answer: D

Explanation: D) All capital expenditures made during the period and goods purchased for resale during the period.

Type: MC

Topic: GST/HST - input tax credits (ITC)

51) Underwater World Ltd., is both incorporated and situated in Alberta. Alberta does not participate in the HST and does not have a provincial sales tax. Among the purchases Underwater World Ltd. made in December of 2022 were the following items:

**Item Price before GST**

New motor for Dinghy #1 $7,000

New snorkeling equipment (for charter trips) 400

Water ski club membership fee (for the president) 700

Membership to Waterways Ltd. 500

Waterways Ltd. carries supplies for charter boat operators and requires the payment of a membership to use their services. The ITC that Underwater World Ltd. can claim for December 2022 are:

A) $350.

B) $370.

C) $395.

D) $430.

E) None of the above.

Answer: C

Explanation: C) [($7,000 + $400 + $500)(5%)] = $395. An ITC is not permitted for the club fee as the fee is not deductible for income tax purposes.

Type: MC

Topic: GST/HST - input tax credits (ITC)

52) Joel Knight, a lawyer, is a sole proprietor/practitioner in the province of Ontario. The HST rate in Ontario is 13%. Joel has requested that you advise him on what his HST remittance should be for the October to December 2022 quarter. Details of transactions, excluding HST, between October and December of 2022 are:

Revenues $30,000

Expenses:

Salaries $ 7,000

Proprietor's drawings 11,000

Office supplies 500

Rent 3,000

The HST that is to be remitted for the October to December 2022 quarter is:

A) $1,105.

B) $2,535.

C) $3,445.

D) $3,835.

E) None of the above.

Answer: C

Explanation: C) Revenues $30,000

Office supplies ( 500)

Rent ( 3,000)

Total $26,500

Rate 13%

HST Payable $ 3,445

Type: MC

Topic: GST/HST - calculations (regular method)

53) Paddy's Cycle Shop carries on business in Ontario where the HST rate is 13%. A summary of the shop's transactions for the month of January 2022 is as follows:

**Account Amount before HST**

Revenues $300,000

Purchase of bicycles 150,000

Purchase of tires and other parts 18,500

Salaries 8,000

Premises rental 3,000

The HST that is to be remitted in respect of the above transactions is:

A) $15,665.

B) $16,055.

C) $16,705.

D) $17,095.

E) None of the above.

Answer: C

Explanation: C) Revenues $300,000

Purchase of bicycles ( 150,000)

Purchase of tires and other parts ( 18,500)

Premises rental ( 3,000)

Total $128,500

Rate 13%

HST Payable $ 16,705

Type: MC

Topic: GST/HST - calculations (regular method)

54) You are performing a review of a lawyer's books and records. The lawyer's office is in Ontario where the HST rate is 13%. While you are in the lawyer's office, you are asked to calculate the HST remittance. You are given the following amounts which exclude HST.

Revenues $325,000

Expenses:

Salaries $135,000

Stationery and supplies 5,000

Utilities - telephone and hydro 2,500

Rent 15,000

Based on the above transactions, the HST payable is:

A) $21,775.

B) $39,325.

C) $39,975.

D) $41,275.

E) None of the above.

Answer: B

Explanation: B) Revenues $325,000

Stationery and supplies ( 5,000)

Utilities ( 2,500)

Rent ( 15,000)

Total $302,500

Rate 13%

HST Payable $ 39,325

Type: MC

Topic: GST/HST - calculations (regular method)

55) With respect to the quick method of accounting for GST/HST, which of the following statements is **NOT** correct?

A) The rates used to determine the GST/HST liability under the quick method depend on whether the registrant is a business that purchases goods for resale or a business that provides services.

B) Capital expenditures are tracked separately for purposes of determining ITCs.

C) Any business can elect to use the quick method as long as annual GST/HST included taxable sales total $400,000 or less.

D) Current expenditures are not tracked separately for purposes of determining ITCs.

Answer: C

Explanation: C) A business involved in legal, accounting and financial consulting services, cannot use the quick method.

Type: MC

Topic: GST/HST - quick method

56) With respect to the simplified method of accounting for ITCs in a province that does not participate in the HST program, which of the following statements is **NOT** correct?

A) Total fully taxable inputs, with the exclusion of capital expenditures on real property, are multiplied by 5/105 to arrive at the ITC for the GST return.

B) Capital expenditures are not tracked separately for purposes of determining ITCs.

C) Registrants using this method charge GST at the usual 5% rate on fully taxable sales.

D) Registrants using this method who provide both taxable and exempt goods and services must pro-rate the ITC claim so that only the portion that applies to taxable goods and services is claimed.

Answer: B

Explanation: B) Capital expenditures are not tracked separately for purposes of determining ITCs. Real property purchases are tracked separately.

Type: MC

Topic: GST/HST - simplified input tax credit (ITC) method

57) Kenichi Tajima carries on a retail clothing business as a sole proprietor in Saskatchewan, a non-participating province. The provincial sales tax is 6%. This store uses the simplified method of accounting for ITCs. The store had fully taxable purchases of $180,000 and purchased capital property (not including real property) with a cost of $5,000. Both amounts include PST and GST. What amount of ITC is Mr. Tajima able to claim?

A) $0

B) $8,333

C) $8,810

D) $9,250

Answer: C

Explanation: A) $0

B) $8,333 [(5/111)($180,000 + $5,000)]

C) $8,810 [(5/105)($180,000 + $5,000)]

D) $9,250 [(5%)($180,000 + $5,000)]

Type: MC

Topic: GST/HST - simplified input tax credit (ITC) method

58) Associated persons file separate GST/HST returns, but they must combine their total taxable sales of goods and services in certain situations. A Ltd. sells 100% fully taxable supplies, and B Ltd. sells 100% zero-rated supplies. In which of the following situations would the associated persons A Ltd. and B Ltd. **NOT** need to combine their taxable sales?

A) A Ltd. and B Ltd. would like to claim the full ITC on the purchase of a building for A Ltd.

B) A Ltd. and B Ltd. would like to use the small supplier's exemption.

C) A Ltd. and B Ltd. would like to use the quick method of accounting.

D) A Ltd. and B Ltd. would like to use the simplified method for calculating input tax credits.

Answer: A

Explanation: A) A Ltd. sells 100% fully taxable supplies, and B Ltd. sells 100% zero rated supplies. They would like to claim the full ITC on the purchase of a building for A Ltd.

Type: MC

Topic: GST/HST - associated persons

59) A GST rebate is available to employees of a GST registrant located in a province that does not participate in the HST program. The calculation is based on a factor of 5/105 of:

A) all taxable benefits received from their employer.

B) all employment expenses deducted in the calculation of employment income.

C) all taxable benefits received from their employer and all employment expenses deducted in the calculation of employment income.

D) all eligible expenses for fully taxable supplies deducted in the calculation of employment income, except for CCA.

E) all eligible expenses for fully taxable supplies deducted in the calculation of employment income, including CCA.

Answer: E

Explanation: E) all eligible expenses for fully taxable supplies deducted in the calculation of employment income, including CCA.

Type: MC

Topic: GST/HST - employee/partner rebate including CCA

60) Tamara Soccorro is a real estate agent. She lives in a province that participates in the HST program at 13%. She earns commission income, and claims employment expenses. Tamara has claimed the following expenses on her T777 — Statement of Employment Expenses:

Office Supplies (100%) $1,100

Automobile gas and maintenance (87%) 4,176

Automobile insurance (87%) 3,132

CCA on car (87%) 5,791

Where applicable, the amounts include the HST. What is Tamara's Employee HST Rebate?

A) $ 607

B) $1,273

C) $1,439

D) $1,634

Answer: B

Explanation: A) $607 [(13/113)($1,100 + $4,176)]

B) $1,273 [(13/113)($1,100 + $4,176 + $5,791)]

C) $1,439 [(13%)($1,100 + $4,176 + $5,791)]

D) $1,634 [(13/113)($1,100 + $4,176 + $3,132 + $5,791)]

Type: MC

Topic: GST/HST - employee/partner rebate including CCA

61) In April of the current year, Bryan Lord purchases a new home at a cost of $610,000, plus GST of $30,500. Bryan is a resident of Manitoba, a province that does not participate in the HST program. Bryan will be eligible for a new housing GST rebate of:

A) Nil.

B) $6,300.

C) $10,980.

D) $17,500.

Answer: A

Explanation: A) Nil. [$6,300][($450,000 - $610,000) + $100,000]

B) $6,300 [(5%)(36%)($350,000)]

C) $10,980 [$30,500][36%]

D) $17,500 [the full amount of GST payable on a $350,000 home]

Type: MC

Topic: GST/HST - residential property & new housing rebate

62) In which of the following situations will the vendor and purchaser be able to file a joint election to treat the supply as if it were zero-rated?

A) The vendor is selling substantially all of the properties used in a business. The vendor is a GST/HST registrant but the purchaser is not.

B) The vendor is selling the majority (60%) of the properties used in a business. Both the vendor and the purchaser are GST/HST registrants.

C) The vendor is selling the shares of the business. Both the vendor and the purchaser are GST/HST registrants.

D) The vendor is selling substantially all of the properties used in a business. Neither the vendor nor the purchaser are GST/HST registrants.

Answer: D

Explanation: D) The vendor is selling substantially all of the properties used in a business. Neither the vendor nor the purchaser are GST/HST registrants.

Type: MC

Topic: GST/HST - rollover on the sale of a business as a sale of assets

63) A registered charity in a non-participating province has a used clothing store. Revenues from the store for the year total $40,000. Which of the following statements is correct?

A) The charity will have to collect GST on all of their clothing sales.

B) The charity will not have to collect any GST on their clothing sales.

C) The charity will have to collect GST on their clothing sales on revenues greater than a $30,000 small supplier exemption.

D) The charity cannot claim ITCs.

Answer: B

Explanation: B) The charity will not have to collect any GST on their clothing sales. (There is a $50,000 small supplier exemption for charities.)

Type: MC

Topic: GST/HST - collection & remittance

64) A partnership carries on an engineering business, providing fully taxable services. Which of the following statements is correct?

A) The partners are required to register for the GST/HST with respect to the commercial activities.

B) The partnership is required to collect the GST/HST on taxable supplies and is eligible for ITCs.

C) Partners are not individually liable for the GST/HST of the partnership.

D) Costs incurred by partners that are reimbursed by the partnership are eligible for the Employee and Partner GST/HST Rebate.

Answer: B

Explanation: B) The partnership is required to collect the GST/HST on taxable supplies and is eligible for ITCs.

Type: MC

Topic: GST/HST - partnerships

65) Which of the following transactions related to the carrying on of a business by a trust are subject to GST/HST?

A) A distribution of taxable supplies by the trust to the beneficiaries.

B) A distribution of family jewelry by a trust to a beneficiary in the process of settling an estate.

C) A distribution of shares held as investments.

D) The sale of an interest in a trust by a beneficiary.

Answer: A

Explanation: A) A distribution of taxable supplies by the trust to the beneficiaries.

Type: MC

Topic: GST/HST - trusts

66) During the current taxation period, Mackin Enterprises purchased merchandise for $371,000. Merchandise sales during this period totalled $476,000 and the cost of the merchandise sold was $302,000. Ignoring all other costs incurred by Mackin and assuming a rate of 5%, how much tax would be paid by Mackin under an accounts-based VAT system and under an invoice-credit VAT system?

Answer: The amount of tax to be paid under the two systems would be calculated as follows:

**Accounts Invoice**

**Based System Credit System**

Value Added ($476,000 - $302,000)] $174,000 N/A

Taxable Revenues N/A $476,000

Base for Credits N/A ( 371,000)

Subtotal $174,000 $105,000

Rate 5% 5%

Total $ 8,700 $ 5,250

The fact that the tax is less under the invoice-credit system reflects the fact that the purchases of goods exceeded the cost of goods sold.

Type: ES

Topic: GST/HST - alternative VAT approaches

67) Brad Inc. had sales of merchandise during the current period of $825,000. The cost of the merchandise sold was $562,000. During the period, inventories of merchandise increased by $150,000. Without consideration of other costs incurred by Brad Inc., and using a rate of 8%, determine how much tax would be paid by the Company under an accounts-based VAT system and under an invoice-credit VAT system.

Answer: The amount of tax to be paid under the two systems would be calculated as follows:

**Accounts Invoice**

**Based System Credit System**

Value Added ($825,000 - $562,000)] $263,000 N/A

Taxable Revenues N/A $825,000

Base For Credits ($562,000 + $150,000) N/A ( 712,000)

Subtotal $263,000 $113,000

Rate 8% 8%

Total $ 21,040 $ 9,040

The fact that the tax is less under the invoice-credit system reflects the fact that the purchases of goods exceeded the cost of goods sold.

Type: ES

Topic: GST/HST - alternative VAT approaches

68) Mr. Marcus Leblanc commences business on January 1 of the current year. His quarterly sales of taxable supplies are as follows:

**Calendar Quarter Taxable Sales**

January, February, March $14,000

April, May, June 6,000

July, August, September 33,000

October, November, December 50,000

At what point in time will Mr. Leblanc have to begin collecting GST? At what point will he be required to register?

Answer: As his sales exceed $30,000 in the third quarter, he will be required to begin collecting GST on the first sale in that quarter that exceeds the $30,000 threshold. This means he will have to begin collecting GST sometime between July 1 and September 30. He will be required to register within 29 days of that date.

Type: ES

Topic: GST/HST - requirement to register (the calendar quarter tests)

69) Sheila Hammer commences business on January 1 of the current year. Her quarterly sales of taxable supplies are as follows:

**Calendar Quarter Taxable Sales**

January, February, March $28,000

April, May, June 32,000

July, August, September 21,000

October, November, December 48,000

At what point in time will Ms. Hammer have to begin collecting GST? At what point will she be required to register?

Answer: Ms. Hammer's sales exceed $30,000 in the second quarter. This means that she will be required to begin collecting GST on the first sale in that quarter that exceeds the $30,000 threshold. This will be sometime between April 1 and June 30. Registration will be required within 29 days of that date.

Type: ES

Topic: GST/HST - requirement to register (the calendar quarter tests)

70) Ms. Jesse Holt commences business on January 1 of the current year. Her quarterly sales of fully taxable supplies are as follows:

**Calendar Quarter Taxable Sales**

January, February, March $20,000

April, May, June 2,000

July, August, September 19,000

October, November, December\* 42,000

\*Consists of a sale of $28,000 on October 15 and a sale of $14,000 on November 27.

At what point in time will Ms. Holt have to begin collecting GST? At what point will she be required to register?

Answer: As Ms. Holt's sales accumulate to more than $30,000 by the end of the third quarter, she will have to begin collecting GST on November 1, one month after the end of the quarter. (The fourth quarter sales are not relevant.) She will be required to register by December 26, within 29 days of the November 27 sale.

Type: ES

Topic: GST/HST - requirement to register (the calendar quarter tests)

71) Marvin Gardens commences business on January 1 of the current year. During the first year of operations, quarterly sales were as follows:

**Calendar Quarter Taxable Sales**

January, February, March $18,000

April, May, June 14,000

July, August, September\* 35,000

October, November, December 37,000

\*Consists of a sale of $15,000 on July 15, and a sale of $20,000 on September 27.

At what point in time will Mr. Gardens have to begin collecting GST? At what point will he be required to register?

Answer: Mr. Gardens' sales accumulate to $32,000 ($18,000 + $14,000) by the end of the April to June quarter. This means that he will begin collecting GST on August 1, one month after the end of the quarter. He will be required to register within 29 days of that date.

Type: ES

Topic: GST/HST - requirement to register (the calendar quarter tests)

72) Edleson Inc. is located in a province that does not participate in the HST program. During the current period, Edleson Inc. purchases an office building for $1,450,000 (excluding GST), including a payment for the land of $320,000. It spends an additional $347,400 (excluding GST) for equipment to be used in the building. The building will be used 35% to produce fully taxable supplies and 65% for exempt supplies. The equipment will be used 42% for taxable supplies and 58% for exempt supplies. For accounting purposes, the building will be amortized over 30 years, while the equipment will be amortized over 12 years.

Determine the ITCs that Edleson Inc. can claim as a result of these capital expenditures.

Answer: As the building is real property, an ITC would be available on a pro rata basis. This means that the credit would be $25,375 [($1,450,000)(5%)(35%)]. No ITC would be available on the equipment as it is used less than 50% in the provision of taxable supplies.

Type: ES

Topic: GST/HST - input tax credits (ITC)

73) Logan Inc. is located in Ontario where a 13% HST rate applies. During the current year, the Company purchases the following capital property:

Office Building (Including HST) $2,825,000

Equipment (Including HST) 904,000

The building will be used 40% to produce fully taxable supplies and 60% for zero-rated supplies. The equipment will be used 35% for fully taxable supplies, 25% for zero-rated supplies, and 40% for exempt supplies.

Determine the ITCs that Logan Inc. can claim as a result of these capital expenditures.

Answer: The available ITCs would be calculated as follows:

Building [(13/113)(100%)($2,825,000)] $325,000

Equipment [(13/113)(100%)($904,000)] 104,000

Total Available ITCs $429,000

While there is a pro rata calculation on real property, the building is used 100% for taxable (fully and zero-rated) supplies. With respect to the equipment, it is used 60% (35% + 25%) for taxable supplies. This allows Logan to claim the ITC on 100% of the cost.

Type: ES

Topic: GST/HST - input tax credits (ITC)

74) Mr. Jack Morton works in the province of Alberta, a non-participating province. He is a management consultant who delivers services that are billed at a GST inclusive amount of $286,650 during the current year. Before the inclusion of any applicable GST, his expenses for the year are $18,000 for rent, $23,500 for clerical salaries, $5,000 for interest on a loan, and $3,000 for office supplies (purchases of these supplies totaled $4,500 for the year). In addition, he acquired office furniture at the beginning of the year for $32,000, plus GST of $1,600. The cost of this furniture is being amortized for accounting purposes over 10 years at a rate of $3,200 per year.

Determine the GST payable or GST refund for the year.

Answer: The GST payable would be calculated as follows:

GST on Sales [(5/105)($286,650)] $13,650

ITCs:

Rent [(5%)($18,000)] ( 900)

Salaries N/A

Interest N/A

Purchases of Supplies [(5%)($4,500)] ( 225)

Capital Expenditure [(5%)($32,000)] ( 1,600)

GST Payable for the Current Year $10,925

Type: ES

Topic: GST/HST - calculations (regular method)

75) May Poplar lives in Alberta, a non-participating province. During the current year she has service revenue of $326,000. Her current expenses for the year are as follows (all amounts are before GST):

Rent $36,000

Salaries to Employees 72,000

Interest on Business Loan 5,000

Supplies 23,000

CCA 12,000

Her inventory of Supplies increased by $4,000 during the year. In addition to these current expenditures, she acquired additional furniture and fixtures in the amount of $18,000, before GST. She files her GST return on an annual basis and does not use the Quick Method.

Determine the GST payable or GST refund for the year.

Answer: The GST payable would be calculated as follows:

GST on Sales [(5%)($326,000)] $16,300

ITCs:

Rent [(5%)($36,000)] ( 1,800)

Salaries N/A

Interest N/A

Purchases of Supplies [(5%)($23,000 + $4,000)] ( 1,350)

CCA N/A

Capital Expenditure [(5%)($18,000)] ( 900)

GST Payable for the Current Year $12,250

Type: ES

Topic: GST/HST - calculations (regular method)

76) Ms. Mary Rivers works in the province of Ontario where the HST rate is 13%. She is a photographer and, during the current year she earns service revenue of $136,000. Rent for this period on her office and darkroom totals $29,450 and she pays an office assistant an annual salary of $21,300. Her capital expenditures during the period are for photographic equipment with a cost of $43,700 and computer hardware and software for $18,000. All amounts are before HST. She files her HST return on an annual basis and does not use the Quick Method.

Determine the HST payable or HST refund for the year.

Answer: The HST payable would be calculated as follows:

HST on Sales [(13%)($136,000)] $17,680

ITCs:

Rent [(13%)($29,450)] ( 3,829)

Assistant's Salary N/A

Capital Expenditures [(13%)($43,700 + $18,000)] ( 8,021)

HST Payable for the Current Year $ 5,830

Type: ES

Topic: GST/HST - calculations (regular method)

77) Alvin Creek carries on a business in Nova Scotia where the HST rate is 15%. He is a management consultant whose business had HST included revenues of $517,500 during the current year. His current expenses for the year are as follows (all amounts are before HST):

Rent $48,000

Salaries to Employees 23,000

Interest on Business Loan 5,000

Office Supplies 14,000

CCA 18,000

During the 2022 year, his inventory of office supplies decreased by $3,000. In addition to these current expenditures, he purchased a new Class 10.1 passenger vehicle to be used in his business at a cost of $45,000, before the inclusion of HST. The vehicle is used 95% for business purposes.

Determine the HST payable or HST refund for the year.

Answer: As the passenger vehicle is owned by an individual and used more than 90% for business purposes, the ITC is based on 100% of the cost for GST/HST purposes. However, in calculating the ITC, the cost of the car is limited to the 2022 Class 10.1 maximum of $34,000.

HST on Sales [(15/115)($517,500)] $67,500

ITCs:

Rent [(15%)($48,000)] ( 7,200)

Salaries to Employees N/A

Interest on Business Loan N/A

Office Supplies [(15%)($14,000 - $3,000)] ( 1,650)

CCA N/A

Vehicle [(15%)(100%)($34,000)] ( 5,100)

HST Payable for the Current Year $53,550

Type: ES

Topic: GST/HST - calculations (regular method)

78) Felicia's Frocks carries on a retail business as a sole proprietor in Nova Scotia where the HST rate is 15%. The Quick Method remittance rates are 5% for businesses that purchase goods for resale and 10% for service providers. During the first quarter of the year, the business has sales of fully taxable supplies of $42,300. Current expenses on which HST was paid amount to $37,800. In addition, capital expenditures during this period totaled $72,000. All of these amounts are before the HST. The business has no activities other than the delivery of fully taxable supplies (e.g. merchandise).

Compare the HST payable (receivable) using the regular method applicable to GST/HST calculations with the amount that would be payable (receivable) using the Quick Method.

Answer: The HST refund under the regular method would be calculated as follows:

HST on Sales [(15%)($42,300)] $ 6,345

ITCs:

Current Expenses [(15%)($37,800)] ( 5,670)

Capital Expenditures [(15%)($72,000)] ( 10,800)

HST Refund - Regular Method ($10,125)

Alternatively, under the Quick Method, the calculation would be as follows:

Basic Tax [(5%)(115%)($42,300)] $ 2,432

Credit on first $30,000 [(1%)($30,000)] ( 300)

Subtotal $ 2,132

ITC on Capital Expenditures [(15%)($72,000)] ( 10,800)

HST Refund - Quick Method ($ 8,668)

As the Regular Method produces a larger refund, it would be the preferable method. Note that ITCs on capital expenditures are available, even when the Quick Method is used.

Type: ES

Topic: GST/HST - regular method vs the quick method

79) Click Cameras carries on a retail business as a sole proprietor in Alberta which is a non-participating province. The Quick Method remittance rates are 1.8% for businesses that purchase goods for resale and 3.6% for service providers. During the first quarter of the year, the business has taxable sales of $63,400. Current expenses on which the GST was paid total $26,275. Due to numerous burglaries, Click Cameras spends $44,900 on a sophisticated security system. All of these amounts are before the addition of GST. The system is being amortized over five years on a straight line basis for accounting purposes. The store is used exclusively for the sale of taxable supplies (e.g. merchandise).

Compare the GST payable or the GST refund using the regular method with the amount that would be payable or refundable using the Quick Method.

Answer: If the Quick Method is not used, the GST payable (refund) would be calculated as follows:

GST on Sales [(5%)($63,400)] $3,170

ITCs:

Current expenses [(5%)($26,275)] ( 1,314)

Capital Expenditures [(5%)($44,900)] ( 2,245)

GST Refund - Regular Method ($ 389)

Alternatively, under the Quick Method, the calculation would be as follows:

Basic Tax [(1.8%)(105%)($63,400)] $1,198

Credit on first $30,000 [(1%)($30,000)] ( 300)

Subtotal $ 898

ITC on Capital Expenditures [(5%)($44,900)] ( 2,245)

GST Refund - Quick Method ($1,347)

As the Quick Method produces a larger refund, it would be the preferable method. Note that ITCs on capital expenditures are available, even when the Quick Method is used.

Type: ES

Topic: GST/HST - regular method vs the quick method

80) Narston Ltd. carries on business in Alberta which is a non-participating province that has no provincial sales tax. For the current year, Narston Ltd. has GST inclusive sales of $472,500. It has purchases of merchandise and other current expenditures of $320,000 before the addition of GST. Capital expenditures consisted of real property in the amount of $85,000 and capital personal property in the amount of $23,000. These amounts are before the addition of GST.

Using the simplified method of accounting for ITCs, calculate Narston's GST payable or GST refund for the current year.

Answer: Using the simplified method of accounting for ITCs, the GST payable or GST refund would be calculated as follows:

GST on Sales [(5/105)($472,500)] $22,500

ITCs on Purchases and Capital Personal Property

{[5/105][($320,000)(105%) + ($23,000)(105%)]} ( 17,150)

ITCs on Real Property [(5%)($85,000)] ( 4,250)

GST Payable for the Current Year $ 1,100

Type: ES

Topic: GST/HST - simplified input tax credit (ITC) method

81) Parkway Ltd. operates in Ontario where the HST rate is 13%. For the current year, the Company has HST inclusive sales of $395,500. Its various current expenses on which HST was paid totaled an HST inclusive amount of $254,250. Also during the year, it acquired real property for an HST inclusive amount of $113,000, and capital personal property for an HST inclusive amount of $56,500.

Using the simplified method of accounting for ITCs, calculate Parkway's HST payable or HST refund for the current year.

Answer: Using the simplified method of accounting for ITCs, the HST refund

would be calculated as follows:

HST on Sales [(13/113)($395,500 )] $45,500

ITCs on Purchases & Capital Personal Property

[(13/113)($254,250 + $56,500)] ( 35,750)

ITCs on Real Property [(13/113)($113,000)] ( 13,000)

HST Refund for the Current Year ($ 3,250)

Type: ES

Topic: GST/HST - simplified input tax credit (ITC) method

82) The government is considering introducing a pure turnover tax, so that businesses will only have to account for and remit tax collected on transactions.

Assume goods normally move from the raw materials supplier, to the manufacturer, to the wholesaler, to the distributor, to the retailer, and finally to the consumer. Assume a sale price of $500, plus tax, by the raw materials supplier to the manufacturer. There is a mark-up of 50% of the before tax cost at each subsequent turnover and the tax applies to the selling price at each turnover.

**Required**: Calculate the transaction tax rate required to raise the same amount of tax revenue as a 5% single stage tax at the consumer level.

Answer: ***Single Stage Consumer Tax***

The ultimate price to the consumer would be calculated as follows:

**Selling**

**Vendor Cost Price**

Raw Materials Supplier $ 500.00

Manufacturer $ 500.00 750.00

Wholesaler 750.00 1,125.00

Distributor 1,125.00 1,687.50

Retailer 1,687.50 2,531.25

Applying the tax rate of 5% to the $2,531.25 selling price results in a tax of $126.56.

*Turnover Tax Calculation*

The turnover tax would be applied on each transfer of the product. Given this, the tax rate that would result in a total tax of $126.56 would be calculated as follows:

[($500)(X%)] + [($750)(X%)] + [($1,125)(X%)] + [($1,687.50)(X%)] + [($2,531.25)(X%)]

=$126.56

[($500 + $750 + $1,125 + $1,687.50 + $2,531.25)(X%)] = $126.56

[($6,593.75)(X%)] = $126.56

X% = $126.56 ÷ $6,593.75

X% = 1.92%

As would be anticipated, because this tax is applied at each stage in the production/sale process, the required rate is lower than the 5% that would be applied at only the consumer level.

Type: ES

Topic: GST/HST - turnover tax vs. single stage consumer tax

83) Joan Kraft has always had a great love of flowers. After many years of working tirelessly for other unappreciative florists, she has worked up the courage to start her own business.

It will be called Joan's Own Flowers and will have a December 31 fiscal period. Her store opens for business on July 1, 2021 and, during the first 18 months of operations has the following quarterly revenues:

July To September, 2021 $6,000

October To December, 2021 5,000

January To March, 2022 8,000

April To June, 2022 10,000

July To September, 2022 16,000

October To December, 2022 20,000

Total for 18 Months $65,000

**Required**:

A. Advise Joan as to when she must start collecting GST/HST. Also advise her by what date GST registration must be completed.

B. How would your answer differ if the revenues for the April to June, 2022 quarter had been $32,000 instead of $10,000?

Answer:

***Part A - Calendar Quarter Test***

Under this test, persons are required to register for the GST/HST if taxable revenues exceed $30,000 in any single quarter. Under this test, Joan is not required to register during the first

18 months of operating her business.

***Part A - Last Four Calendar Quarters Test (Cumulative)***

Under this test, persons are required to register for the GST/HST if their taxable revenues accumulate to more than $30,000 in any four consecutive calendar quarters. The relevant

calculations are as follows:

**Individual Cumulative**

**Quarter Four Quarters**

July To September, 2021 $6,000 $ 6,000

October To December, 2021 5,000 11,000

January To March, 2022 8,000 19,000

April To June, 2022 10,000 29,000

July To September, 2022 16,000

($29,000 - $6,000 + $16,000) 39,000

October To December, 2022 20,000

($39,000 - $5,000 + $20,000) 54,000

As shown, the cumulative total exceeds $30,000 in the July to September, 2022 quarter. As a result, Joan is required to start collecting GST/HST on the first sale on or after November 1, 2022, one month after the quarter in which the $30,000 threshold is reached. Registration is required within 29 days of the first sale on which GST is collected.

***Part B - Calendar Quarter Test***

Under this altered revenue assumption, revenues exceed $30,000 in the April to June, 2022 quarter. Given this, Joan will have to start collecting GST/HST on the first sale that causes her cumulative total for four quarters to exceed $30,000. While Joan would be considered a deemed registrant at that point in time, she has to formally register within 29 days of the first sale on which GST/HST is collected.

***Part B - Last Four Calendar Quarters Test (Cumulative)***

As the calendar quarter test requires collection of GST/HST prior to the end of the April to June, 2022 quarter, the cumulative four quarters test is not relevant.

Type: ES

Topic: GST/HST - requirement to register (the calendar quarter tests)

84) A new building is purchased in London, Ontario for $5,000,000, before HST. The purchaser, Total Health Inc., provides all types of health care services and products, and is a GST/HST registrant. 60% of the building will be used by Total Health Inc. employees as medical and dental offices with the remaining 40% will be used to house a pharmacy run and managed by Total Health Inc. staff.

The HST rate in Ontario is 13%.

**Required**: Calculate how much HST Total Health Inc. will pay on the purchase and the ITC that can be claimed.

Answer: As sales of commercial property are taxable, HST of $650,000 [(13%)($5,000,000)] will be payable on the purchase. An ITC can be claimed as Total Health Inc. is a registrant and commercial use of the building exceeds 10%.

The ITC will be based on the expected use of 40% for zero-rated supplies (the pharmacy), resulting in an ITC of $260,000 [(13%)(40%)($5,000,000)].

Medical and dental services are exempt supplies. As a result, no ITC is available for 60% of the HST paid on the building.

Type: ES

Topic: GST/HST - input tax credits (ITC)

85) Mrs. Archer carries on a consulting business in Ontario and is an HST registrant. The HST rate is 13%.

Her annual revenues have been increasing and will be over $200,000 for the current year. She has elected to file quarterly HST returns. During the October to December, 2022 quarter, Mrs. Archer made the following expenditures:

**Cost (Before HST) HST**

Meals with Clients $ 1,600 $ 208

Country Club Membership 1,200 156

Laptop (Estimated 70% Business Use) 2,500 325

Passenger Vehicle (100% Business Use) 42,000 5,460

HST was charged on all of the expenditures. The laptop was invoiced in December, but was not picked up or paid for until January, 2023.

**Required**: Determine the ITC that Mrs. Archer can claim in her quarterly October to December, 2022 GST/HST return.

Answer: Mrs. Archer's ITCs would be calculated as follows:

Meals with Clients [(50%)($208)] $ 104

Country Club Membership N/A

Laptop (100%) 325

Automobile [(13%)($34,000)] 4,420

Total ITCs $4,849

The deductibility of certain types of business expenses are restricted for income tax purposes. For many of these amounts, there is a corresponding restriction on the ability of the business to claim ITCs for HST purposes. In this problem, the applicable restrictions are as follows:

• The recovery of HST on meals and entertainment expenses is limited to 50%.

• No ITC is allowed for HST paid on membership fees or dues in any club whose main purpose is to provide dining, recreational, or sporting facilities.

• No ITCs are available for HST paid on the portion of the cost or lease payment of a passenger vehicle that is in excess of the deduction limits. For passenger vehicles purchased on or after January 1, 2022 the prescribed limit is $34,000.

As a further note, since the laptop is used more than 50% for commercial activity, 100% of the ITC can be claimed. The fact that it was invoiced in December means that the ITC can be claimed despite the fact it was not paid for until the following quarter.

Type: ES

Topic: GST/HST - input tax credits (ITC)

86) Bestomer's Best Balloons is the registered name of a business carried on in Alberta as a sole proprietorship, The business files GST returns on an annual basis. Alberta is a non-participating province that has no provincial sales tax.

The following is a summary of the financial statement information for the current year. All amounts are presented without the inclusion of applicable GST.

Sales $69,000

Less Expenses:

Cost of Goods Sold ($12,000)

Salaries & Wages ( 19,000)

Other expenses ( 14,500)

Interest on Demand Loan ( 600)

Interest on Mortgage ( 1,100)

Amortization Expense ( 10,000)

Income Tax ( 2,000) ( 59,200)

Accounting Net Income - Current Year $ 9,800

GST was paid on purchases of balloons and all "other expenses". The inventory of balloons at the end of the year was $4,000 and the year end inventory is $3,000.

**Required:** Calculate the GST payable or GST refund for Bestomer's Best Balloons for the current year.

Answer: The sales are fully taxable. GST paid on the cost of balloons purchased and other expenses can be claimed as an ITC. All other items are GST exempt.

The GST payable for the year is calculated as follows:

GST on Sales [(5%)($69,000)] $3,450

ITCs:

Balloons Purchased [(5%)($12,000 - $3,000 + $4,000)] ( 650)

Salaries & Wages N/A

Other Expenses [(5%)($14,500)] ( 725)

Interest on Demand Loan N/A

Interest on Mortgage N/A

Amortization Expense N/A

Income Tax N/A

GST Payable $2,075

Type: ES

Topic: GST/HST - calculations (regular method)

87) Saul's Sports Sales and Service is the name of a registered business carried on as a sole proprietorship in Alberta by Saul Bernstein. However, the business features several unique products that are shipped to various other provinces. In addition to selling various sports oriented products, the business also includes a small (but growing) medical clinic specializing in sports injuries. These services are only provided in Alberta.

Saul's Sports Sales and Service is an annual filer for GST purposes. Alberta is a non-participating province that does not have a provincial sales tax.

The following is a summary of the financial statement information for 2022. All amounts shown are without the GST.

Revenues (Note 1) $836,339

Less Expenses:

Cost of Goods Sold (Note 2) ($427,386)

Amortization Expense ( 36,348)

Salaries & Wages (Note 3 ( 123,746)

Interest Expense ( 6,783)

Other Expenses (Note 4) ( 62,477) ( 656,740)

Net Income before Income Tax $179,599

**Note 1 -** The various components of the total revenues of the business were as

follows:

Sales in the Alberta Store $563,420

Goods Shipped to Ontario 163,450

Goods Shipped to Manitoba 62,341

Goods Shipped to Saskatchewan 34,782

Medical Clinic Revenues 12,346

Total Revenues $836,339

**Note 2 -** Purchases of goods during the year were as follows:

Purchases from Alberta Suppliers $382,946

Purchases from Ontario Suppliers 32,468

Purchases from British Columbia Suppliers 46,982

Total Purchases $462,396

**Note 3 -** Of the total Salaries & Wages, 5% relate to the medical clinic.

**Note 4 -** Other Expenses include the following:

Business Meals & Entertainment $12,466

Gym Membership Fee for Saul 456

Property Insurance for Building 4,683

Drugs for Medical Clinic (Zero-Rated Supplies) 4,000

All of the remaining "other expenses" relate to the costs of operating the retail business (ex., office supplies, telephone, packaging etc.).

Capital expenditures for the current year were as follows:

• $872,000 for a building. Of the total space 35% is used for the medical clinic with the remainder used for the retail operations.

• $48,300 for a new Class 10.1 automobile that is used 100% in the retail business.

• $32,345 for office equipment. This equipment is used 15% in the provision of medical services and 85% in the retail business.

**Required:** Calculate the GST payable or GST refund for Saul's Sports Sales and Service for 2022.

Answer: The GST Refund for Saul's Sports Sales and Service for 2022 would be calculated as follows:

GST/HST Collected (Note 1)

Alberta Sales [(5%)($563,420)] $ 28,171

Ontario Sales [(13%)($163,450)] 21,249

Manitoba Sales [(5%)($62,341)] 3,117

Saskatchewan Sales [(5%)(34,782)] 1,739

Medical Clinic Revenues (GST Exempt) Nil

Total GST Collections $54,276

ITCs:

Purchases (Note 2) ( 23,120)

Amortization Expense N/A

Salaries & Wages N/A

Interest Expense N/A

Other Expenses (Note 3) ( 2,355)

Building [(5%)(65%)($872,000)] ( 28,340)

Automobile [(5%)(100%)($34,000 Class 10.1 Maximum)] ( 1,700)

Other Capital Expenditures [(5%)(100%)($32,345)] ( 1,617)

2022 GST Refund ($ 2,856)

**Note 1 -** When goods are shipped to a participating province, the HST rate must be charged. Otherwise, only the 5% GST rate will be used in the calculation of the GST Payable/Refund.

**Note 2 -** Only the GST rate is applicable to purchases shipped to Alberta. The province of origin is not relevant. This results in an ITC of $23,120 [(5%)($462,396)].

**Note 3** - The ITC here is calculated as follows:

Total Other Expenses $62,477

Ineligible for ITCs:

Non-Deductible One-Half of Business Meals

& Entertainment [(1/2)($12,466)] ( 6,233)

Non-Deductible Gym Membership ( 456)

Property Insurance for Building (GST Exempt) ( 4,683)

Drugs for Medical Clinic (Zero-Rated) ( 4,000)

Eligible Other Expenses $47,105

GST Rate 5%

ITC - Other Expenses $ 2,355

**Other Notes:**

• Amortization expense does not affect the GST calculation.

• No GST is paid on salaries and wages, or interest. As a result, no ITCs are available.

• The recovery of GST on meals & entertainment expenses is limited to 50%.

• No ITC is available for GST paid on gym memberships as these are not deductible for income tax purposes.

• No GST is paid on insurance premiums as they are a financial service and GST exempt.

• No ITC is available on zero-rated supplies as no GST is paid on them.

• ITCs on real property are available based on the proportion of their use in providing taxable supplies.

• ITCs are available on capital expenditures other than real property if more than 50% of their use is in providing taxable supplies.

Type: ES

Topic: GST/HST - comprehensive problem: regular method calculations

88) Billy Bob, Bubba, Nancy Sue and Sally Ann Cody are siblings. Each of them runs a separate business as sole proprietors. The businesses are all carried on in Ontario where the HST rate is 13%. If the Quick Method is used in that province, the Ontario quick method remittance rate is 4.4% for a retail business and 8.8% for a service provider.

The siblings provide you with the following annual information for their businesses. All amounts shown include HST. None of the sales or purchases were zero-rated or exempt, and none of the businesses made any capital expenditures during the year.

**Type of Business Sales Purchases**

Billy Bob Guided Fishing Trips $ 90,400 $ 24,860

Bubba Fishing Equipment Sales 197,750 135,600

Nancy Sue Cooking Equipment Sales 158,200 45,200

Sally Ann Individualized Cooking Courses 107,350 67,800

**Required**: Recommend whether any of the businesses should use the Quick Method to calculate HST remittances. Show your calculations.

Answer: The following recommendations are based solely on the minimization of the HST payment. No consideration is given to the reduction in accounting costs available through the use of the Quick Method.

***Billy Bob - Guided Fishing Services (Service Business)***

The Regular Method would be preferable in this case.

**Regular Method**

[13/113][($90,400 - $24,860)] $7,540

**Quick Method**

Basic Tax [(8.8%)($90,400)] $7,955

Credit on first $30,000 [(1%)($30,000)] ( 300)

Net HST $7,655

***Bubba - Fishing Equipment Sales (Retailer)***

The Regular Method would be preferable in this case.

**Regular Method**

[13/113][($197,750 - $135,600)] $7,150

**Quick Method**

Basic Tax [(4.4%)($197,750)] $8,701

Credit on first $30,000 [(1%)($30,000)] ( 300)

HST Payable $8,401

***Nancy Sue - Cooking Equipment Sales (Retailer)***

The Regular Method results for Nancy Sue are as follows:

**Regular Method**

[13/113][($158,200 - $45,200)] $13,000

While Nancy Sue is in a retail business, her costs for the current year are well below the 40% that is required for use of the favourable quick method rates that are applicable to retail operations. However, this test is based on sales and purchases in the previous year, information that is not available in this problem. If we assume that this 40% test was met in the previous year, the quick method gives a more favourable result as follows:

**Quick Method** - Rate for Retailers

Basic Tax [(4.4%)($158,200)] $6,961

Credit on First $30,000 [(1%)($30,000)] ( 300)

HST Payable $6,661

Alternatively, if the 40% test is not met, the quick method results are less favourable than the results under the Regular Method.

**Quick Method** - Rate for Service Providers

Basic Tax [(8.8%)($158,200)] $13,922

Credit on first $30,000 [(1%)($30,000)] ( 300)

HST Payable $13,622

***Sally Ann - Individualized Cooking Courses (Service Business)***

The Regular Method would be preferable in this case.

**Regular Method**

[13/113][($107,350- $67,800)] $4,550

**Quick Method**

Basic Tax [(8.8%)($107,350)] $9,447

Credit on First $30,000 [(1%)($30,000)] ( 300)

HST Payable $9,147

Type: ES

Topic: GST/HST - regular method vs the quick method

89) For the year ending December 31, 2022, the Income Statement of Dorknell Ltd. is as follows (all amounts are without the addition of the GST and PST):

Revenues:

Sales of Fully Taxable Goods $216,000

Provision of Exempt Services 78,000 $294,000

Less Expenses:

Cost of Goods Sold ($123,000)

Amortization Expense ( 56,000)

Salaries & Wages ( 12,000)

Rent ( 42,000)

Interest Expense ( 9,000)

Other Expenses ( 27,000) ( 269,000)

Income before Taxes $ 25,000

Less: Federal & Provincial Income Tax ( 8,000)

Accounting Net Income $ 17,000

**Other Information:**

1. Dorknell Ltd. carries on a retail business in Saskatchewan where all of the Company's revenues and expenses are incurred. In addition to the 5% federal GST, Saskatchewan has a provincial sales tax of 6%. The quick method rates applicable to the province are 1.8% for businesses that purchase goods for resale, and 3.6% for service providers.

2. For the previous taxation year ending December 31, 2021, Dorknell's cost of goods purchased for resale totalled $110,000 and the revenue from sales of taxable supplies totalled $302,000. Both amounts are before GST and PST.

3. Inventories of taxable goods decreased by $8,000 during the year.

4. All of the "other expenses" relate to fully taxable supplies.

5. Of the Salaries & Wages, 46% were paid to employees involved in providing exempt services.

6. A capital expenditure was made during the year at a GST and PST inclusive cost of $62,160. The expenditure was for equipment that will be used 60% for the provision of fully taxable goods. GST and PST was paid on the purchase of all properties on which amortization is being deducted for the year.

**Required**: For the taxation year ending December 31, 2022:

A. Determine if Dorknell is eligible to use the Quick Method and the Quick Method remittance rate that would apply.

B. Calculate the 2022 GST payable or GST refund.

C. Assume that Dorknell is eligible to use the Quick Method. Calculate the 2022 GST payable or GST refund for Dorknell Ltd. using the Quick Method.

Answer:

***Part A***

As Dorknell's GST included taxable sales of $226,800 [(105%)($216,000)] are less than $400,000 and it is not engaged in an ineligible business such as accounting, Dorknell can use the Quick Method.

In order to determine the Quick Method remittance rate, the following amounts from the preceding year are required:

2021 GST Inclusive Purchases of Goods for Resale [($110,000)(105%)] $115,500

2021 GST Inclusive Sales of Taxable Supplies [($302,000)(105%)] $317,100

Since $115,500 ÷ $317,100 equals 36% and this is less than 40%, Dorknell Ltd. cannot use the reseller's remittance rate of 1.8% and must use the 3.6% rate.

Although this would not be a common situation, it could occur if a large quantity of the inventory that was sold was purchased in a prior year.

***Part B***

Using the regular calculations, the GST refund for Dorknell Ltd. for 2022 would be calculated as follows:

GST Collected [(5%)($216,000)] $10,800

ITCs on Current Expenditures:

Purchases [(5%)($123,000 - $8,000)] ( 5,750)

Amortization Expense N/A

Salaries & Wages N/A

Rent [(5%)($42,000)] ( 2,100)

Interest Expense N/A

Other Expenses [(5%)($27,000)] ( 1,350)

ITCs on Capital Expenditures

[(5%)(100%)($62,160 ÷ 1.11)] ( 2,800)

2022 GST Refund ($ 1,200)

**Notes:**

• Amortization expense does not affect the GST calculation.

• No GST is paid on salaries and wages, or interest. As a result, no ITCs are available.

• Full ITCs are available on capital expenditures other than real property if more than 50% of their usage is to provide fully taxable supplies.

***Part C***

The Quick Method calculations would be as follows:

Basic Tax [(3.6%)(105%)($216,000)] $8,165

Credit on first $30,000 [(1%)($30,000)] ( 300)

Total before Capital Expenditures $7,865

ITC On Capital Expenditures

[(5%)(100%)($62,160 ÷ 1.11)] ( 2,800)

GST Payable $5,065

In this case, the regular GST calculation is preferable as it produces a refund rather than a payable. This would be the case even if the Quick Method remittance rate had been 1.8% rather than 3.6%.

Type: ES

Topic: GST/HST - comprehensive problem: regular method vs quick method

90) Martin Halo is employed by a large public company with all of its business carried on in Ontario. His employer is an HST registrant. Martin resides in Ontario.

**Other Information:**

1. Ontario is a participating province using an HST rate of 13%.

2. Martin is required to travel as part of his employment. For this travel, he uses his own car and pays for all expenses out of his own pocket. He does not receive any reimbursement or allowance from his employer.

3. The car that Martin uses was purchased in January, 2021 at an HST inclusive price of $32,770 [(113%)($29,000)]. He uses the vehicle exclusively for employment related travel. In 2021, Martin claimed $14,747 of CCA [(30%)(1.5)($32,770)] and an HST rebate on the CCA of $1,697 [($14,747)(13/113)]. His 2021 return was accepted as filed. Martin intends to take maximum CCA on the car for 2022.

4. In his 2022 income tax return, Martin claims the following employment expenses:

Accommodation (Includes HST of $910) $ 7,910

Deductible Portion of Meals & Entertainment (Includes HST of $780) 6,780

Automobile Expenses:

Gas & Maintenance (Includes HST of $1,040) 9,040

Interest on Automobile Loan 2,200

Insurance 1,400

Total 2022 Employment Expenses excluding CCA $27,330

**Required:** Calculate the maximum CCA that Martin can claim on his car for 2022. In addition, calculate the 2022 HST rebate that Martin will claim as a result of his deductible employment expenses.

Answer: The car cost $29,000 before HST. Since this is less than the 2021 prescribed limit of $30,000 for Class 10.1, the total amount paid, including HST, is included in Class 10. The maximum CCA that Martin can claim for 2022 is as follows:

Opening UCC ($32,770 - $14,747) $18,023

HST Rebate Claimed on Car CCA in preceding Year ( 1,697)

Adjusted UCC $16,326

Class 10 Rate 30%

Maximum CCA $ 4,898

The employee HST rebate for Martin would be calculated as follows:

Total Expenses other than CCA $27,330

HST Exempt Purchases:

Interest ( 2,200)

Insurance ( 1,400)

Eligible Expenses other than CCA $23,730

Rate 13/113 $2,730

Eligible CCA $4,898

Rate 13/113 563

2022 Employee HST Rebate $3,293

Type: ES

Topic: GST/HST - employee/partner rebate including CCA

91) Rhapsody Music Supplies is the registered name of a business carried on in Manitoba as a sole proprietorship. The business is registered for the GST. Manitoba is a non-participating province that charges a provincial sales tax of 8%.

During the current calendar quarter, the following sales and expenditures were made. All sales were cash sales, and all expenditures were invoiced for and paid in the quarter.

**Amount GST PST Total**

Sales $24,000 $1,200 $1,920 $27,120

Expenditures

Capital Equipment $14,000 $ 700 $1,120 $15,820

Interest 1,000 Nil Nil 1,000

Purchases of Inventory 6,000 300 480 6,780

Rent (GST, but no PST) 4,000 200 Nil 4,200

Salaries 4,000 Nil Nil 4,000

Supplies 2,000 100 160 2,260

Total Expenditures $31,000 $1,300 $1,760 $34,060

**Required:** Using the simplified ITC method, determine the total ITC that can be claimed for the quarter and the required GST remittance.

Answer: The total ITC that can be claimed is calculated as follows:

Total Expenditures $34,060

Ineligible Items

Salaries ($4,000)

Interest ( 1,000) ( 5,000)

$29,060

ITC Factor 5/105

ITC that can be Claimed $ 1,384

Note that the $1,384 ITC is greater than the GST paid of $1,300. The reason for the $84 ($1,384 - $1,300) discrepancy is due to the inclusion of the non-refundable provincial sales tax of $1,760 in the tax base for purposes of calculating the ITC [($1,760)(5/105) = $84].

This difference benefits registrants who use the simplified ITC method.

The GST refund is $184 ($1,200 - $1,384).

Type: ES

Topic: GST/HST - simplified input tax credit (ITC) method

92) Nikkee Sports is the registered name of a retail business carried on as a sole proprietorship in Ontario. All of its revenues and expenses take place in Ontario. There are no associated persons and the business files its GST return on an annual basis. Ontario has a 13% HST rate.

Nikkee's Income Statement for the current year is as follows (all amounts are shown without HST):

Revenues:

Fully Taxable Goods $265,000

Exempt Services 73,000 $338,000

Less Expenses:

Cost of Goods Sold (All Taxable) ($140,000)

Amortization Expense ( 23,000)

Salaries & Wages ( 17,000)

Rent ( 18,000)

Interest Expense ( 50,000)

Other Expenses ( 21,000) ( 269,000)

Income before Taxes $ 69,000

Less: Federal and Provincial Income Tax ( 14,000)

Accounting Net Income $ 55,000

**Other Information:**

1. Inventories of taxable goods increased by $13,000 during the year.

2. A capital expenditure was made during the year at an HST inclusive cost of $62,150. The expenditure was for equipment that will be used 60% for the provision of fully taxable goods. HST was paid on the purchase of all capital property on which amortization is being claimed in the year.

3. All of the "other expenses" are related to fully taxable supplies.

4. The rent was not subject to HST as it was paid to a non-registrant. The proportion of the leased property that is used for the provision of exempt services is 20%.

5. Of the Salaries & Wages, 40% were paid to employees involved in providing exempt services.

**Required:**

A. Calculate the HST payable or HST refund for Nikkee Sports for the current year using regular GST/HST calculations.

B. Calculate the HST payable or HST refund for Nikkee Sports for the current year using the Simplified ITC Method.

Answer:

***Part A***

Using the regular calculations, the HST payable for Nikkee Sports for the current year would be calculated as follows:

HST Collected [(13%)($265,000)] $34,450

ITCs on Current Expenditures:

Purchases [(13%)($140,000 + $13,000)] ($19,890)

Amortization Expense N/A

Salaries & Wages N/A

Rent (Paid to Non-Registrant) N/A

Interest Expense N/A

Other Expenses [(13%)($21,000)] ( 2,730) ( 22,620)

ITCs on Capital Expenditures

[(13%)(100%)($62,150 ÷ 1.13)] ( 7,150)

HST Payable - Regular Method $ 4,680

**Notes:**

• Amortization expense does not affect the HST calculation.

• No HST is paid on salaries & wages, or interest. As a result, no ITCs are available.

• Full ITCs are available on capital expenditures other than real property if more than 50% of their usage is to provide fully taxable supplies.

***Part B***

The Simplified ITC Method calculations would be as follows:

HST Collected [(13%)($265,000)] $34,450

ITCs:

Purchases [(113%)($140,000 + $13,000)] ($172,890)

Other Expenses [(113%)($21,000)] ( 23,730)

Subtotal ($196,620)

Simplified ITC Method Factor 13/113

ITC on Taxable Current Expenditures ($ 22,620)

ITCs on Capital Expenditures

[(13%)(100%)($62,150 ÷ 1.13)] ( 7,150) ( 29,770)

HST Payable - Simplified ITC Method $ 4,680

The HST Payable is the same under both methods. This is because all of Nikkee Sports' transactions took place in Ontario.

Type: ES

Topic: GST/HST - comprehensive problem: regular & simplified HST returns

93) Rebecca Forma lives in Alberta and is planning to buy a home outside of Edmonton. Alberta is a non-participating province that does not have a provincial sales tax. The three properties that are under consideration can be described as follows:

**Property A -** is a 10 year old property that was built several years ago at a cost of $285,000. It will not require any renovations and is being offered to Rebecca for $423,000.

**Property B -** is an old house that is being offered in "as is" condition for $225,000. In order to be livable, it will require major renovations involving over 90% of the interior floor space. The estimated cost of these renovations is $180,000. The vendor has agreed to make these renovations and will charge Rebecca $405,000 for the improved property.

**Property C -** is a new house that is under construction. The basic price at this point is $325,000. To meet Rebecca's requirements, it will need significant upgrades. The builder will complete $60,000 of these improvements prior to the sale. Additional improvements will be carried out by Rebecca using materials that will cost $25,000.

**Required**: Before making any offer to purchase, Rebecca has asked you to determine what the GST and total out-of-pocket costs of each purchase would be.

Answer: The GST and total cost of each purchase would be calculated as follows.

***Property A***

As this property is a used residential property, no GST will be payable. This means that no GST will be required and the total cost will be $423,000.

***Property B***

As the renovations involve more than 90% of the interior, they will be considered substantial. Since the renovations would be done by the vendor prior to the sale, the purchase would be deemed to be that of a "new" home. As a result, the total purchase price would be subject to GST and a new housing rebate could be claimed on the total, as follows:

GST Payable [($405,000)(5%)] $ 20,250

Less: New Housing Rebate

[$6,300][($450,000 - $405,000) ÷ $100,000] ( 2,835)

Net GST Payable $ 17,415

Purchase Price 405,000

Total Cost $422,415

***Property C***

GST will be paid on the purchase price of $325,000, plus all of the improvements, a total of $410,000. However, the new housing rebate is only available on $385,000, the pre-improvement price of $325,000, plus the $60,000 in improvements carried out by the builder. It is not available on the additional $25,000 of costs incurred by Rebecca.

GST Payable [($410,000)(5%)] $ 20,500

Less: New Housing Rebate

[$6,300][($450,000 - $385,000) ÷ $100,000] ( 4,095)

Net GST Payable $ 16,405

Total Pre-Tax Cost 410,000

Total Cost $426,405

Type: ES

Topic: GST/HST - residential property & new housing rebate